D|S|P Housing & Development Consultants

Fenland District Council

Community Infrastructure Levy – Viability Scoping and Assessment

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Final Report

(DSP v7)

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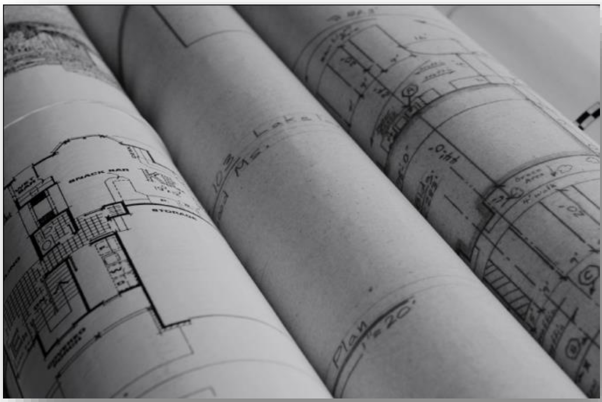

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Appendices

Executive Summary

Local context and review

1. Fenland District Council (FDC) is considering the potential introduction of a Community Infrastructure Levy (CIL). The Council's review scope includes its wider approach to seeking developer contributions towards infrastructure provision. These are the main planning system tools available as means to help fund infrastructure associated with development (housing and other relevant types).

2. The new development is that based on the delivery of the development plan for the district: the 'Fenland Local Plan'. The Local Plan was adopted by the Council in 2014 and will be a key tool in guiding how the district will develop over the period to 2031.

See report sections 1.1 to 1.3. Chapters 2 and 3 go on to explain how the context informs the consideration of assumptions and review of results.

CIL background

3. A CIL allows local authorities to raise funds from new developments taking place in their area, essentially as a form of tariff. In this case, Fenland District Council would be the CIL charging authority if it decides to pursue this.

4. The introduction of a CIL is optional. Where introduced, it is largely a replacement for the current system of section 106 ('s.106') or equivalent planning agreements, although even where a CIL is set up, s.106 will continue to be the means of securing developers' planning obligations on affordable housing and any other site-specific requirements. Where a CIL is not put in place, s.106 will continue to be the primary means of securing developer contributions.

5. CIL is a fixed charge, once set, that is levied on new developments of 100 sq. m or more in floor area; and new dwellings of any size. It is charged at a £/sq. m (£ per square metre) rate (the 'CIL charging rate' or 'CIL rate'). There are some types of development that receive relief from charging through the regulations. Affordable housing, self-build homes and development by charities are not charged. The fixed,

non-negotiable nature of CIL is a key factor that means the level of charging needs to be considered very carefully.

6. The CIL rate or rates must be set at a level that means development across the area as a whole will not be put at risk. Development on the whole should remain viable and be capable of coming forward with any selected CIL rate(s) in place. In turn this means that the viability of development must not be taken to the limits in order to support CIL charging. 'Viable' (or 'viability') here means workable development in a financial sense. A viable development is one where the completed sale value is sufficient to support all of the development costs - including an appropriate land value and development profit.

7. Where a CIL is put in place, a 'charging schedule' will be set out and subject to consultation processes followed by independent examination. For chargeable developments, variable charging rates may be set according to the use of the development, its scale and location; where one or more of those factors creates a clear difference ('differentiation') in how viable the form of development is.

8. So, in order to set up a CIL, the Government's CIL Regulations (as updated in 2014) require that Councils consider evidence of the local infrastructure that will be needed to support new development (to ensure that a funding gap exists so as to justify the need for a CIL) and evidence on the viability of development in their area (based on the policies of an up to date plan).

See report sections 1.1 and 1.3.

Viability assessment

9. An assessment of viability is therefore required. This summary provides a very brief overview of the viability assessment process and report completed by Dixon Searle Partnership (DSP) for Fenland District Council. The full report will need to be read by those interested in the detail. It is essentially a scoping report to provide the necessary viability information and to help inform the Council's wider consideration of how best to support new development with infrastructure funding - secured either through s.106 or equivalent agreements (the current mechanism for securing planning obligations) and / or a CIL.

10. DSP is an experienced consultancy working daily with local authorities on viability matters from site-specific cases to strategic level studies such as this. DSP assessments have helped enable a number of Councils' progress through the CIL setting process and this experience is brought to bear here.

11. This assessment essentially considers the scope, from the viability findings, for a Fenland CIL at the current time. It provides our findings and recommendations on that scoping and the detail that comes out of it in relation to various development uses and associated charging rates potential.

12. The assessment, in common with others found to provide robust and appropriate viability information to inform the CIL setting process, uses the principles of 'residual valuation' in a very large number of appraisal calculations to investigate the all-important strength of relationship between the sales values and development costs.

13. The costs are deducted from the estimated value, and any surplus (hence 'residual') is viewed as the amount left over for land purchase. This 'residual land value' ('RLV') is then considered against some form of benchmark land value / comparison (effectively a target), being the estimated level beneath which the site would not be released for development. Where the scheme appraisal RLV exceeds the land value comparison, the headroom provides the scope for considering CIL funding and its level. This is not a precise exercise and involves suitable information review, estimations and judgements in order to consider the appraisal inputs (assumptions) and to assess the results.

See report Chapters 1 and 2; particularly section 2.1 on residual valuation principles.

Fenland findings – outline

14. Overall, from the residential review, we found viability to be quite finely balanced for the scheme types and main locations (principally the four towns of March, Chatteris, Wisbech and Whittlesey) most relevant to the overall Fenland Local Plan picture. This is because the sales values available to support the great majority of the planned development are at a level that begin to support the bringing forward of schemes. However, in the main, once other development costs are factored-in using appropriate assumptions for CIL setting (such as assumed land costs, development

profits and affordable housing), the outcomes do not in our view provide sufficient headroom to support clear CIL charging scope at the present time.

15. The nature of CIL setting considerations and the associated guidance is key here as the relevant context, as opposed to necessarily the scheme to scheme outcomes that are seen in practice. This scoping assessment has been undertaken to consider the potential suitability of a CIL in the current local circumstances, and it is not intended as a guide to site-specifics. As elsewhere, the local market is picking up. We consider that development will come forward in Fenland, consistent with current signs. However at the current time, we found the most important areas of the outcomes likely to be too sensitive to added cost in the form of a fixed CIL charge at any meaningful level.

16. Thus at the present time, the broad scoping picture relevant to a local CIL is that, apart from in a few higher value smaller settlements, DSP considers there to be insufficient viability scope to clearly and reliably support a meaningful CIL charge from new housing development. We consider that the progression of developments contributing to the Local Plan delivery would at this stage, and during the likely life of any first charging schedule, be better supported by the continued and honed use of s.106 than through the CIL regime; refreshing of the approach to s.106 would be more positive.

17. Likewise, the CIL charging scope related to local commercial / non-residential development uses is also considered to be very limited; to larger format retail such as supermarkets and similar developments only.

18. All in all, the view gleaned from our findings is that at the current time any Fenland CIL would, if introduced, need to be very narrow in scope. Therefore the set-up and any other additional costs (which we understand from initial estimates could be up to around £100,000 per annum) would need to be considered carefully alongside its likely modest revenue outcomes. On the revenue side of this, it appears that the potentially chargeable development types (e.g. any larger format retail and residential limited to a few villages) are not of key relevance in the CIL context of the development of the area as a whole, and in our opinion do not provide a sufficiently significant and predictable source of community infrastructure income.

19. At the present time, in summary, CIL does not appear to represent the most appropriate or efficient route to take in Fenland. Subject to the Council's further consideration, alternative arrangements appear to offer a better solution, principally through the continued use of S.106.

20. The pooling of s.106 contributions is restricted by the CIL regulations, so that more detailed management of their use will be needed. The Council is, however, looking to develop and clarify its use of s.106 in any event - through further guidance currently being considered.

21. All in all, providing the pooling restrictions are adequately managed, the continued use of s.106 looks likely to provide a more flexible and productive mechanism for securing any necessary planning obligations alongside affordable housing in Fenland's case.

22. These recommendations from the viability assessment are not applicable long term. Although a CIL is to be based on the development plan, as elsewhere that has a very long timeframe in relation to assumptions necessarily made now in terms of property markets and movements, development costs and technical requirements, etc.

23. Typically a first CIL charging schedule is expected to have a life of say 2 to 5 years maximum, so that in any event the CIL charging scope is recommended for review over that sort of timescale. The need for review is a positive recommendation and is applicable either in the case of FDC not pursuing CIL now, as recommended given the viability findings, or the alternative of seeking to set to a narrowly scoped CIL at this time.

24. There is no specified review period or particular standard practice emerging on this to date. The market as well as Government policy and other influences will act together to determine how viability outcomes change over time. Whilst a particular point in time or period will not in itself determine that review will mean different outcomes overall, a period of say 3 years at this stage seems a reasonable interval at which to consider a review.

25. In our view it might well be possible to review the planning obligations / CIL charging scope on a relatively "light touch" type basis, initially at least; to first explore any

change in key indicators such as development values and build costs and the likely effect of those relative to the picture seen now.

See Chapter 3 for detailed findings discussions. A summary of key findings and CIL scope recommendations is provided at section 3.10 (including in table form for a quick overview at Figure 14 – 3.10.17)

Executive Summary to Viability Scoping & Assessment report ends – (DSP v7 - Final).
September 2014.
Main report text Chapters 1 to 3 follows.

1 Introduction

1.1. Background to the Assessment and the Community Infrastructure Levy (CIL)

1.1.1. Fenland District Council (FDC) formally adopted its Local Plan (known as the 'Fenland Local Plan'; formerly the 'Fenland Local Plan – Core Strategy') in May 2014. This sets out the long term vision for the district up to 2031. Brief Local Plan context is noted below in section 1.2.

1.1.2. The National Planning Policy Framework (NPPF) was published in final form in March 2012 and supersedes previous Planning Policy Statements (PPSs). The NPPF sets out the overall approach to the preparation of Local Plans. It states that planning authorities should seek opportunities to achieve each of the economic, social and environmental dimensions of sustainable development, with net gains across all three. Significant adverse impacts on any of these dimensions should be avoided and, wherever possible, alternative options which reduce or eliminate such impacts should be pursued. The NPPF also states that Local Plans should be aspirational but realistic - that is, to balance aspirational objectives with realistic and deliverable policies.

1.1.3. The NPPF provides specific guidance on ensuring Local Plan viability and deliverability, in particular, paragraphs 173-174 state:

'Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.

Local planning authorities should set out their policy on local standards in the Local Plan, including requirements for affordable housing. They should assess the likely cumulative impacts on development in their area of all existing and proposed local *standards, supplementary planning documents and policies that support the development plan, when added to nationally required standards. In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle'*[1].

1.1.4. Having regard to this guidance the council needs to ensure that the Local Plan, in delivering its overall policy requirements, can address the requirements of the NPPF.

1.1.5. Alongside and in support of the Local Plan, the Council is now considering the introduction of a Community Infrastructure Levy as well as its wider developer contributions policy framework; as potential means to help fund infrastructure associated with new housing and wider development within the district.

1.1.6. The Community Infrastructure Levy (CIL) came into force in April 2010 and allows local authorities in England and Wales to raise funds from new developments taking place in their area. In this case, Fenland District Council would be the CIL charging authority.

1.1.7 CIL takes the form of a charge that may be payable on 'development which creates net additional floor space'[2]. The majority of developments providing an addition of less than 100 sq. m in gross internal floor area will not pay. For example, a small extension to a house or to a commercial / non-residential property; or a non-residential new-build of less than 100 sq. m will not be subject to the charge. Additionally, under the Community Infrastructure Levy (Amendment) Regulations 2014, there will be a mandatory exemption for residential annexes and extensions regardless of size. However, development that involves the creation of a new residential unit (such as a house or a flat) will pay the charge, even if the new dwelling has a gross internal floor area of less than 100 sq. m.[3]

1.1.8 The funds raised are to be allocated towards infrastructure needed to support new development in the charging authority's area, in accordance with its Local Plan.

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[1] Communities & Local Government – National Planning Policy Framework (March 2012)
[2] Planning Practice Guidance (June 2014) http://planningguidance.planningportal.gov.uk/blog/guidance/community-infrastructure-levy/
[3] Subject to the changes introduced in The Community Infrastructure Levy (Amendment) Regulations 2014 that provide a mandatory exemption for self-build housing, including communal housing.

1.1.9 The CIL regulations require charging authorities to allocate a 'meaningful proportion' of the levy revenue raised in each neighbourhood back to those local areas. In January 2013 it was announced that in areas where there is a neighbourhood development plan in place, the neighbourhood will be able receive 25% of the revenues from the CIL arising from the development that they have chosen to accept (whereas the local proportion is 15% with no neighbourhood plan in place). Under the Regulations the money would be paid directly to the neighbourhood planning bodies (usually Parish / Town Councils) and could be used for community projects selected at a local level. The Government has said that it will issue further guidance on exactly what the money can be spent on.

1.1.10 Neighbourhoods without a neighbourhood development plan but where a CIL is still charged will receive a capped share of 15% of the levy revenue arising from development in their area. This announcement was first formalised through the Community Infrastructure Levy 2013 (Amendment) Regulations on 25th April 2013. The Guidance was also updated at that stage to reflect these changes[4]. As will be noted below, further review and consolidation of the regulations and guidance has been put in place subsequently (see 1.1.19 below).

1.1.11 Under the Government's regulations, affordable housing and development by charities will not be liable for CIL charging. This means that within mixed tenure housing schemes, it is the market dwellings only that will be liable for the payments at the rate(s) set by the charging authority.

1.1.12 The levy rate(s) will have to be informed and underpinned firstly by evidence of the infrastructure needed to support new development, and therefore as to the anticipated funding gap that exists; and secondly by evidence on development viability.

1.1.13 Fenland District Council has been working with infrastructure providers and agencies in considering and estimating the costs of the local requirements associated with supporting the Local Plan. This ensures that new development is served by necessary infrastructure in a predictable, timely and effective fashion. It sets out key infrastructure and facility requirements for new development, taking account of existing provision and cumulative impact.

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[4] DCLG – Community Infrastructure Levy Guidance (April 2013)

1.1.14 Infrastructure is taken to mean any service or facility that supports the Fenland area and its population and includes (but is not limited to) facilities for transport, affordable housing, education, health, social infrastructure, green infrastructure, public services, utilities and flood defences. In the case of the current scope of the CIL, affordable housing is assumed to be outside that and dealt with in the established way through site specific planning (s.106) agreements. Within this study, an allowance has been made for the cost to developers of providing affordable housing and other costs of policy compliance in addition to testing potential CIL charging rates. In this sense, the collective planning obligations (including affordable housing, CIL and any continued use of s.106) cannot be separated. The level of each will play a role in determining the potential for development to bear this collective cost. Each of these cost factors influences the available scope for supporting the others. It follows that the extent to which s.106 will have an on-going role also needs to be considered in determining suitable CIL charging rates (if any), bearing in mind that CIL is non-negotiable.

1.1.15 Where the CIL is introduced, in most cases it will largely replace s.106 as the mechanism for securing developer contributions towards required infrastructure. Indeed, Government guidance on CIL states that it expects LPAs to work proactively with developers to ensure they are clear about infrastructure needs so that there is no actual or perceived "double dipping" – i.e. charging for the same infrastructure through both a CIL and s.106. Therefore, where used alongside CIL, s.106 should be scaled back to those matters that are directly related to a specific site and are not set out in a CIL Regulation 123 list (a list of infrastructure projects that the local planning authority intends to fund through the Levy). This could be a significant consideration, for example, in respect of large scale strategic development associated with on-site provision of infrastructure, high site works costs and particularly where these characteristics may coincide with lower value areas.

1.1.16 Looking at the principles associated with the relationship between CIL and s.106 and the use of both, it is equally important to note that the pooling restrictions due to take effect on s.106 also mean that an authority that decides not to proceed with CIL will still need to plan very closely for and very carefully manage its application of s.106.

1.1.17 An authority wishing to implement the CIL locally must produce a charging schedule setting out the levy's rates in its area. The CIL rate or rates should be set at a level that ensures development within the authority's area (as a whole, based on the plan provision) is not put at serious risk.

1.1.18 A key requirement of CIL and setting the charging rates is that an appropriate balance should be struck between the desirability of funding infrastructure from the levy and the potential effects that imposing the levy may have upon the economic viability of development (development viability).

"The levy is expected to have a positive economic effect on development across a local plan area. When deciding the levy rates, an appropriate balance must be struck between additional investment to support development and the potential effect on the viability of developments.

This balance is at the centre of the charge-setting process. In meeting the regulatory requirements (see Regulation 14(1)), charging authorities should be able to show and explain how their proposed levy rate (or rates) will contribute towards the implementation of their relevant plan and support development across their area.

As set out in the National Planning Policy Framework in England (paragraphs 173 – 177), the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened" [5].

1.1.19 The latest amendments to the CIL Regulations (The Community Infrastructure Levy (Amendment) Regulations 2014) came into force on 24th February 2014. These regulations introduced a range of notable changes:

- Limitation on pooling of s.106 obligations delayed until April 2015;

- New mandatory exemptions for self-build housing, and for residential annexes and extensions;

[5] Planning Practice Guidance (June 2014) http://planningguidance.planningportal.gov.uk/blog/guidance/community-infrastructure-levy/

- A change to allow charging authorities to set differential rates by the size of development (i.e. floorspace, units);

- The option for charging authorities to accept payments in kind through the provision of infrastructure either on-site or off-site for the whole or part of the levy payable on a development;

- A new 'vacancy test' - buildings must have been in use for six continuous months out of the last three years for the levy to apply only to the net addition of floorspace (previously a building to be in continuous lawful use for at least six of the previous 12 months);

- A requirement on the charging authority to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects of the levy on the economic viability of development across the area. Previously a charging authority had to 'aim to strike the appropriate balance';

- Provisions for phasing of levy payments to all types of planning permission to deal fairly with more complex developments.

1.1.20 The CIL Regulations (Amendment) have been taken into account in this scoping review and assessment for Fenland District and in our opinion the preparation of this study meets the requirements of all appropriate Guidance, should the Council decide to pursue any aspect of the recommendations with regard to our information on the CIL funding scope in Fenland.

1.1.21 Fenland District Council (FDC) commissioned Dixon Searle LLP (Dixon Searle Partnership – DSP) to carry out a Viability Assessment (VA). The assessment, as described by this report, considers the viability scope for introducing a CIL associated with and based on the Local Plan and local circumstances. This involves an assessment of the potential collective impact of development standards, policies and the potential CIL charging rates on the viability of residential and non-residential development.

1.1.22 The approach builds on the existing evidence supporting the Local Plan development process, including a previous affordable housing viability assessment. This VA, consistent with a typical approach by DSP and others to robust evidence building, considers the cumulative impact on viability of the stated development standards, policies, affordable housing requirements policies to test what level of CIL (if any) would be appropriate in the circumstances relevant to the likely lifespan of a first charging schedule. This is undertaken from a fresh viewpoint given the changing market conditions and other evolving circumstances. The overall VA context and aim is to inform FDC's consideration of the key objective of striking a balance between the need to fund infrastructure and the potential impact on economic viability across the district. As will be seen throughout this report, under current local market conditions in terms of the level of values available to support scheme viability, this is a difficult balance to reach. Invariably, in such circumstances, the Council's wider processes and evidence base review involves the weighing-up of local priorities supportable from the typically available planning obligations funding scope.

1.2 Fenland District context

1.2.1 Fenland District covers approximately 200 square miles within the County of Cambridgeshire. It is a rural and sparsely populated district with Cambridge and the rest of Cambridgeshire to the south, Peterborough to the west and Kings Lynn & Norfolk to the east. Fenland contains four Market Towns (Wisbech, March, Chatteris and Whittlesey) and numerous villages. A context map, the Local Plan 'Key Diagram' – Fenland Local Plan 3.6 – page 30, is included at Appendix III to this report alongside our market and values research outline.

1.2.2 The adopted Local Plan[6] sets out strategic targets for development in the district. It states that the majority of new housing, employment growth, retail growth and wider service provision should take place in the four market towns. Appropriate development will also be considered in the growth villages (Wimblington, Doddington, Manea and Wisbech St Mary) with small amounts of development considered appropriate within the 'Limited Growth Villages'. In the 'Small' and 'Other' villages, development will be considered on its merits and will normally be restricted to single dwellings.

1.2.3 The Local Plan is planning for 11,000 new dwellings in the period to 2031 at an average of 550 dwellings per annum. 2,035 units will come forward on specific sites already committed and a further 2,005 dwellings are anticipated to come forward on

[6] Fenland District Council – Fenland Local Plan (May 2014)

sites that meet the criteria based policy but that are too small to be identified as a broad or specific location for growth. In general development will be directed to the strategic allocation sites and the broad locations for growth with 3,000 dwellings at Wisbech, 4,200 dwellings at March, 1,600 dwellings at Chatteris, 1,000 dwellings at Whittlesey (i.e. approximately 9,800 at the four main towns) and 1,200 dwellings in other locations. The broad locations for growth (BG) and strategic allocations (SA) include the following:

<u>Wisbech</u>

- East Wisbech - SA (900 dwellings).
- South Wisbech – BG (predominantly business with potential for up to 100 residential dwellings).
- West Wisbech – BG (potentially 750 dwellings).
- Nene Waterfront & Port – BG (mixed use retail, leisure and up to 300 new dwellings).

<u>March</u>

- South East March – SA (600 dwellings).
- South-west March - BG (500 dwellings and business).
- West March – SA (2,000 dwellings and business).
- March Trading Estate - BG (business).

<u>Chatteris</u>

- East Chatteris - SA (300 dwellings).
- South Chatteris - SA (850 dwellings and business).
- North Chatteris – BG (100 dwellings and business).

<u>Whittlesey</u>

- North & South Estrea Road – SA (500 residential and mixed use).

1.2.4 Through the Plan the Council also aims to facilitate the delivery of 85ha of new employment land including sites with permission, intensification of existing sites and extensions to established employment areas. The Local Plan targets 30ha each for Wisbech and March, 20ha for Chatteris and 5ha for Whittlesey. Other forms of development including retail will be encouraged to maintain and enhance the vitality and viability of centres, although no specific nature or scale of development is identified in the Local Plan.

1.2.5 The Fenland Local Plan (formerly known as the 'Fenland Local Plan – Core Strategy') and associated information, may be viewed on the Council's web-site at: http://www.fenland.gov.uk/core-strategy .

1.3 Assessment and context – further information

1.3.1 In summary, this assessment has been produced in the context of and with regard to the NPPF, CIL Regulations, CIL Guidance and other Guidance[7] applicable to studies of this nature. The assessment process has also had regard to the national Planning Practice Guidance ('PPG' – an online resource live as of 6 March 2014).

1.3.2 In August 2013 the Government also began consultation on a Housing Standards Review to seek views on the rationalisation of the framework of building regulations and local housing standards. On 13 March 2014 the Government set out its response to the consultation with the decision to, so far as possible, consolidate technical standards into the Building Regulations. At the time of gathering information for the assessment, the Government intended to do so during this Parliament, with draft Regulations due to be published in the Summer of 2014 and supporting approved documents coming into force towards the end of 2014. At this stage, prior to any Guidance or statutory Regulation, we have applied the Council's policies as set out in the Local Plan. It is possible that this may need to be reviewed later in the year, or in due course, as more detail on housing standards is known.

1.3.3 The Government has also recently finished consulting on proposals to abolish any locally set affordable housing thresholds below a potential national minimum threshold of 10 dwellings. Again, for the purposes of this study, an assumption has had to be made based on current circumstances – i.e. the 2014 adopted Local Plan policies. However, we provide sensitivity testing to reflect potential changes in national policy on affordable housing thresholds, so that the Council has a complete set of information from which to draw on in deciding on the most appropriate route to dealing with planning obligations.

1.3.4 The Council's appointment of DSP to provide the viability evidence base to aid the decision making process in relation to the potential introduction of a CIL is in

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[7] Local Housing Delivery Group – Viability Testing Local Plans (June 2012) & Royal Institution of Chartered Surveyors (RICS) – Financial Viability in Planning (GN 94/2012).

response to the need to meet the requirements of Regulation 14 of the CIL Regulations April 2010 (as amended) and the requirements of the NPPF. Alongside and integral to the development of the CIL charging schedule is the level of affordable housing that can be viably sought across the district as well as other planning obligations and standards that have a cost impact on development viability.

1.3.5 This study investigates any potential scope for CIL charging in Fenland taking into account the adopted Local Plan policies. This is done by considering the economic viability of residential and commercial / non-residential development scenarios within the district; taking into account the range of normal costs and obligations (including local and national policies associated with development, as would be borne by development schemes alongside the CIL and affordable housing). This includes the consideration of viability and the potential charging rate or rates appropriate in the local context; and therefore whether a CIL is viable at any level as part of a suitable and achievable overall package of likely planning obligations (including affordable housing) alongside other usual development costs.

1.3.6 This does not require a detailed viability appraisal of every site anticipated to come forward over the plan period rather the testing of a range of appropriate site typologies reflecting the potential mix of sites likely to come forward. Neither does it require an appraisal of every likely policy but rather potential policies which are likely to have a close bearing on development costs.

1.3.7 To this end, the study requires the policies and proposals in the Local Plan to be brought together to consider their cumulative impact on development viability. This means taking account of the policy requirements such as design standards, infrastructure and services, affordable housing, local transport policies and sustainability measures as well as the cost impact of national policies and regulatory requirements.

1.3.8 In practice, within any given scheme there are many variations and details that can influence the specific viability outcome. Whilst acknowledging that, this work provides a high level, area-wide overview that cannot fully reflect a wide range of highly variable site specifics.

1.3.9 The approach used to inform the study applies the well-recognised methodology of residual land valuation. Put simply, the residual land value (RLV) produced by a potential development is calculated by subtracting the costs of achieving that development from the revenue generated by the completed scheme (the gross development value – GDV).

1.3.10 The residual valuation technique has been used to run appraisals on residential and commercial / non-residential scheme typologies representing development scenarios that are likely to be relevant to the development strategy and that are likely to come forward across the district.

1.3.11 The study process produces a large range of results relating to the exploration of a range of potential ('trial') CIL charging rates. As with all such studies using these principles, an overview of the results and the trends seen across them is required - so that judgments can be made to inform the potential CIL rate setting process.

1.3.12 The potential level of CIL charge viable in each scenario has been varied through an iterative process exploring trial charging rates over a range £0 to £150/sq. m for residential and non-residential / commercial scheme test scenarios. This was found to be a sufficient range for exploring the CIL charging scope locally and did not need to be extended following the review of initial results.

1.3.13 The results of each of the appraisals are compared to a range of potential benchmark land values or other guides relevant to the particular development scenarios. These comparisons are necessarily indicative. Consideration of the potential level of land value that may need to be reached to ensure development sites continue to come forward is a key factor, so that development across the area (Plan delivery as a whole) is not put at risk. This is necessary to determine both the overall viability of the scheme types tested and a potentially viable level of CIL as it relates to development type and varying completed scheme value levels (GDVs). Any surplus is then potentially available for CIL, with an appropriate level of affordable housing assumed (i.e. so that the review considers a viable combination of affordable housing requirements and CIL alongside all usual development costs).

1.3.14 The results sets have been tabulated in summary form and those are included as Appendices IIa (residential) and IIb (non-residential / commercial).

1.3.15 A key element of the viability overview process is comparison of the RLVs generated by the development appraisals and the potential level of land value that may need to be reached to ensure development sites continue to come forward so that development across the area is not put at risk.

1.3.16 In considering the relationship between the RLV created by a scenario and some comparative level that might need to be reached, we have to acknowledge that in practice this is a dynamic one – land value levels and comparisons will be highly variable in practice. Through a range of similar studies, technical papers and guidance notes on the topic of considering and assessing development viability it is acknowledged that this is not an exact science. Therefore, to inform our judgments in making this overview, our practice is to look at a range of potential land value levels that might need to be reached allied to the various scenarios tested – based on review of information so far as available.

1.3.17 This report sets out our findings and recommendations for the Council to consider so that appropriate decisions can be made whether to implement the CIL at this time; and if so at what level.

1.4 Notes and Limitations

1.4.1 This study has been carried out using well recognised residual valuation techniques by consultants highly experienced in the preparation of strategic viability assessments for local authority policy development including whole plan, affordable housing and CIL economic viability. However, in no way does this study provide formal valuation advice. It should not be relied on for other purposes.

1.4.2 In order to carry out this type of study a large quantity of data is reviewed and a range of assumptions are required. It is acknowledged that these rarely fit all eventualities - small changes in assumptions can have a significant individual or cumulative effect on the residual land value generated and / or the value of the CIL funding potential (the surplus after land value comparisons).

1.4.3 It should be noted that in practice every scheme is different and no study of this nature can reflect all the variances seen in site specific cases. The study is not intended to prescribe assumptions or outcomes for specific cases.

1.4.4 Specific assumptions and values applied for our schemes are unlikely to be appropriate for all developments and a degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and informing the Council's consideration of CIL in Fenland District.

2 Assessment Methodology

2.1 Residual valuation principles

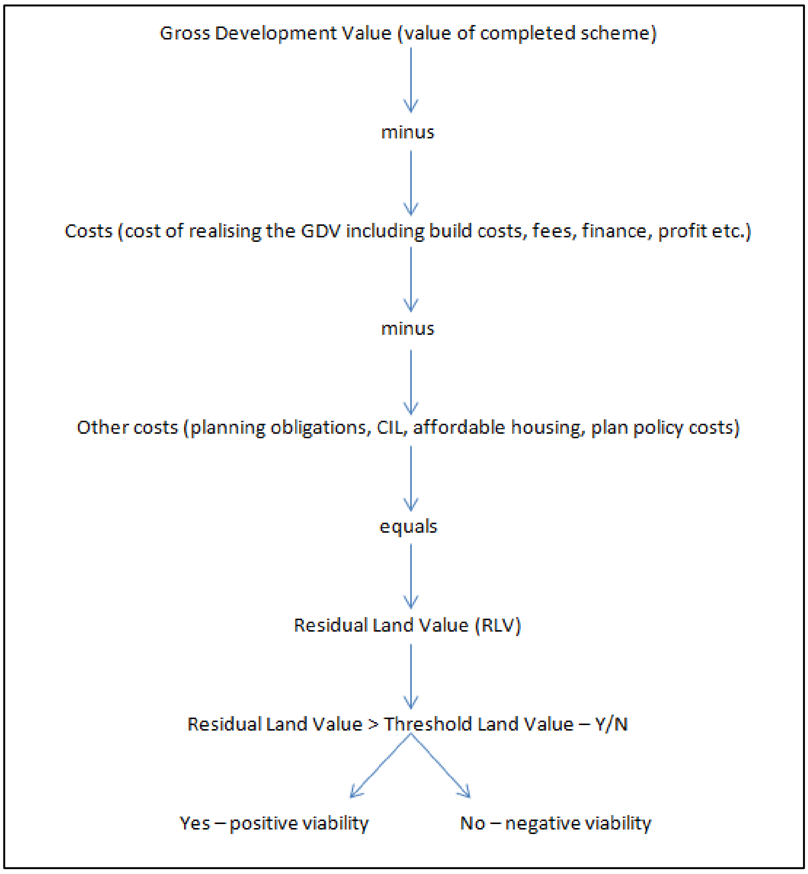
2.1.1 This study investigates the potential for a range of development types to contribute to infrastructure provision funding across the district through the collection of financial contributions charged via a Community Infrastructure Levy (CIL).

2.1.2 There are a number of policies that may have an impact on the viability of development. In running this study, we have had regard to typical policy costs based on policies set out in the adopted Local Plan, in particular including affordable housing policy. This invariably tends to be one of the greatest influences on viability; secondary only to the market and local property price influences. By doing so we are able to investigate and consider how the cost of these obligations interact and therefore estimate the cumulative impact on viability. This is in accordance with established practice on reviewing development viability at this strategic level, and consistent with requirements of the NPPF. In this context, a development generally provides a fixed amount of value (the gross development value – GDV) from which to meet all necessary costs and obligations.

2.1.3 In carrying out this study we have run development appraisals using the well-recognised principles of residual valuation on a number of residential and non-residential / commercial scenario types. The crux of this, and the assessment as a whole, is the review of the strength of the relationship between the completed development value (sales value, i.e. GDV) and the costs (the development costs) associated with creating that value.

2.1.4 Residual valuation, as the term suggests, provides a “residual” value from the gross development value (GDV) of a scheme after all other costs are taken into account. The diagram below (Figure 1) shows the basic principles behind residual valuation, in simplified form:

Figure 1: Simplified Residual Land Valuation Principles



2.1.5 Having allowed for the costs of acquisition, development, finance, profit and sale, the resulting figure indicates the sum that is potentially available to pay for the land – i.e. the residual land value (RLV).

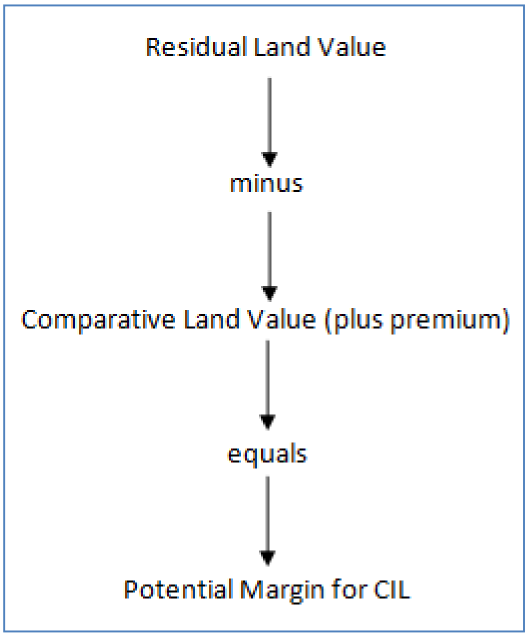
2.1.6 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark, or range of benchmarks of some form, against which to compare the RLV - such as an indication of current or alternative land use values, site value relevant to the site and locality; including any potential uplift that may be required to encourage a site to be released for development (which might be termed a premium, over-bid, incentive or similar). Essentially this means reviewing the potential level(s) that the land value (i.e. the scheme related RLV) may need to reach in order to drive varying prospects of schemes being viable.

2.1.7 The level of land value sufficient to encourage the release of a site for development is, in practice, a site specific and highly subjective matter. It often relates to a range of factors including the actual site characteristics and/or the specific requirements or circumstances of the landowner. Any available indications of land values using sources such as the Valuation Office Agency (VOA) reporting, previous evidence held by the Council, stakeholder consultation and feedback and any available sales, or other evidence on value, are used for this purpose in making our assessment. Recently there has been a low level of activity on land deals and consequently there has been very little to use in terms of comparables. In any event, any available land sale comparables need to be treated with caution in their use directly; the detailed circumstances associated with a level of land value need to be understood. As such a range of reporting as mentioned above has to be relied upon to inform our assumptions and judgments. This is certainly not a Fenland specific factor. In assessing the appraisal results, the surplus or excess residual (land value) remaining above these indicative land value comparisons is shown as the margin potentially available to fund CIL contributions from the particular appraisal result or results set that is under review.

2.1.8 The results show trends indicating deteriorating residual land values (and therefore reduced viability) as scheme value (GDV) decreases and / or costs rise – e.g. through increasing costs (as with varying commercial development types) and increasing trial CIL rates.

2.1.9 If there is any potential margin (CIL funding scope) then this is considered in the round so that charging rates are not pushed to the limits but also allow for some other scope to support viability given the range of costs that could alter over time or with scheme specifics. In essence, the steps taken to consider that potential margin or surplus are as follows (see figure 2 below):

Figure 2: Relationship Between RLV & Potential Maximum CIL Rate (surplus or margin potentially available for CIL).



2.1.10 The range of assumptions that go into the RLV appraisals process is set out in more detail in this chapter. Further information is also available at Appendices I and III. They reflect the local market through research on local values, costs and types of provision, etc. At key project stages we consulted with the Council's officers and sought soundings as far as were available from a range of local development industry stakeholders as we considered our assumptions. This included issuing a stakeholder questionnaire / pro-forma to key stakeholders (developers, house builders, landowners, agents, Registered Providers etc.) alongside e-mail exchanges and telephone discussions through which DSP sought to get feedback on study assumptions and to provide the opportunity for provision of information to inform the study. Appendix III provides more details.

2.2 Site Development Scenarios

2.2.1 Appraisals using the principles outlined above have been carried out to review the viability of different types of residential and non-residential / commercial developments. The scenarios were developed and discussed with the Council following a review of the information it provided. Information included the adopted Local Plan, Supplementary Planning Documents (SDs), previous viability evidence so far as available, and other sources. For the purposes of CIL, it was necessary to determine scenario types reasonably representative of those likely to come forward across the district bearing in mind the potential life of the first CIL Charging Schedule should one be adopted. In addition the scale of development coming forward across the district also needed to be considered.

Residential Development Scenarios

2.2.2 For residential schemes, numerous scenario types were tested with the following mix of dwellings and including sensitivity testing on other policy cost areas including sustainable design and construction standards (see Figure 3 below, and Appendix I provides more details):

Figure 3: Residential Scheme Types

Scheme / Typology	Overall Scheme Mix
1 House	1 x 4BH
5 Houses	5 x 3BH
9 Houses	9 x 4BH
10 Houses	2 x 2BH, 6 x 3BH, 2 x 4BH
15 Houses	3 x 2BH, 8 x 3BH, 4 x 4BH
30 Mixed	2 x 1BF, 2 x 2BF, 7 x 2BH, 14 x 3BH, 5 x 4BH
30 Flats (Sheltered)	22 x 1BF, 8 x 2BF
50 Mixed	2 x 1BF, 3 x 2BF, 12 x 2BH, 23 x 3BH, 10 x 4BH
100 Mixed	4 x 1BF, 6 x 2BF, 24 x 2BH, 46 x 3BH, 20 x 4BH
300 Mixed	12 x 1BF, 18 x 2BF, 72 x 2BH, 138 x 3BH, 60 x 4BH
1,000 Mixed	40 x 1BF, 60 x 2BF, 240 x 2BH, 460 x 3BH, 200 x 4BH
2,000 Mixed	80 x 1BF, 120 x 2BF, 480 x 2BH, 920 x 3BH, 400 x 4BH

Note: BH = bed house; BF = bed flat; Mixed = mix of houses and flats.

2.2.3 The assumed dwelling mixes are based on the range of information reviewed, combined with a likely market led mix. They reflect a range of different types of development that could come forward across the district so as to ensure that viability has been tested with reference to the potential housing supply characteristics. Each of the above main scheme types was also tested over a range of value levels (VLs) representing varying residential values as seen currently across the district by scheme location / type whilst and also allowing us to consider the impact on development viability of changing market conditions over time (i.e. as could be seen through falling or rising values dependent on market conditions) and by scale of development.

2.2.4 The scheme mixes are not exhaustive – many other types and variations may be seen, including larger or smaller dwelling types.

2.2.5 The residential scenarios were chosen to reflect and further test viability across a broad range of scenarios whilst also allowing us to test Fenland District Council affordable housing policy thresholds. In all cases it should be noted that a “best fit” of affordable housing numbers and tenure assumptions has to be made, given the effects of numbers rounding and also the limited flexibility within small scheme numbers. The affordable housing numbers assumed within each scheme scenario can be seen in Appendix I – Assumptions Spreadsheet.

2.2.6 For strategic scale sites (representing site allocations and broad locations for growth) much depends upon the extent, cost and phasing of the infrastructure to be funded by the development, the amount of housing that can actually be accommodated on site, and the timing of its provision in relation to that of the accompanying infrastructure. Such variables are currently unknown or unclear. It is likely that further detailed work will be required in order for the Council to develop a fuller understanding of the potential delivery scenarios of these sites over time, however further commentary is provided within Chapter 3, so far as possible at this stage given the results trends indicated by the largest current stage appraisals.

2.2.7 The dwelling sizes assumed for the purposes of this study are as follows (see figure 4 below):

Figure 4: Residential Unit Sizes

Dwelling type	**Dwelling size assumption (sq. m)**	
	Affordable	**Private (market)**
1-bed flat	50	45
2-bed flat	67	60
2-bed house	75	75
3-bed house	85	95
4-bed house	110	125

2.2.8 As with many other assumptions there will be a variety of dwelling sizes coming forward in practice, varying by scheme and location. These could also be influenced to some extent by the Governments Housing Standards Review. No single size or even range of assumed sizes will represent all dwelling types. Since there is a relationship between dwelling size, value and build costs, it is the levels of those that are most important for the purposes of this study (i.e. expressed in £ sq. m terms); rather than the specific dwelling sizes to which those levels of costs and values are applied in each case. With this approach, the indicative 'Values Levels' ('VL's) used in the study can then be applied to varying (alternative) dwelling sizes, as can other assumptions. The approach to focus on values and costs per sq. m also fits with the way developers tend to price and assess schemes and is consistent with CIL principles. It provides a more relevant context for considering the potential viability scope and also, purely as an additional measure, reviewing any CIL charging rate as a proportion of the schemes value (see Chapter 3 for more detail).

2.2.9 The dwelling sizes indicated are expressed in terms of gross internal floor areas (GIAs). They are reasonably representative of the type of units coming forward within the scheme types likely to be seen most frequently providing on-site integrated affordable housing. All will vary, and from scheme to scheme. However, our research suggests that the values (£ sales values) applicable to larger house types would generally exceed those produced by our dwelling size assumptions but usually would be similarly priced in terms of the relevant analysis – i.e. looking at the range of £ per sq. m 'Value levels' basis. In summary on this point, it is always necessary to consider the size of new build accommodation in looking at its price; rather than its price alone. The range of prices expressed in £s per square metre is the therefore the key measure used in considering the research, working up the range of values levels for testing; and in reviewing the results.

Commercial / Non-Residential Development Scenarios

2.2.10 In the same way, the commercial scheme scenarios reviewed were developed through the review of information supplied by, and through consultation with, the Council; following the basis issued in its brief. This was supplemented with and checked against wider information including the local commercial market offer – existing development and any new schemes / proposals. Figure 5 sets out the various scheme types modelled for this study, covering a range of uses in order to test the impact on viability of requiring CIL contributions from different types of commercial development considered potentially relevant in the district.

2.2.11 In essence, the commercial / non-residential aspects of this study consider the relationship between values and costs associated with different scheme types. Figure

5 below summarises the scenarios appraised through a full residual land value approach; again Appendix I provides more information.

Figure 5: Commercial / Non-residential Development Types Reviewed – Overview

Development Type	Example Scheme Type(s) and potential occurrence	GIA (m^2)	Site Coverage	Site Size (Ha)
Retail - larger format (A1): convenience	Large Supermarket	2500	40%	0.63
Retail - larger format (A1): comparison	Retail Warehousing - edge of centre	1500	25%	0.60
A1- A5: Small Retail	Other retail - town centre	300	70%	0.04
A1-A5: Small retail	Convenience Stores	300	50%	0.06
A1-A5: Small Retail	Farm shop, rural unit, café or similar	200	40%	0.05
B1(a) Offices: Town Centre	Office Building	500	60%	0.08
B1(a) Offices: Out of town centre	Office Building (business park type - various)	2500	40%	0.63
B1(a) Offices: Rural	Farm diversification, rural business centres, ancillary to other rural area uses	250	40%	0.06
B1, B2, B8: Industrial / Warehousing	Start-up / move-on unit	500	40%	0.13
B1, B2, B8: Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	2000	40%	0.50
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type). 60-bed.	2800	80%	0.35
C2 - Residential Institution	Nursing home / care home	3000	60%	0.50

Note: 300 sq. m retail ('small retail') scenarios representative of smaller shop types also permitting Sunday Trading Act related trading hours (see also subsequent information in this report).

2.2.12 Although highly variable in practice, these types and sizes of schemes are thought to be reasonably representative of a range of commercial or non-residential scheme scenarios that could potentially come forward in the district and are as subsequently agreed with the Council. As in respect of the assumptions for the residential scenarios, a variety of sources were researched and considered for guides or examples in support of our assumptions making process; including on values, land values and other development appraisal assumptions. DSP used information sourced from Estates Gazette Interactive (EGi), the VOA Rating List and other web-based review. We also received some additional indications through our process of seeking local soundings. Additional information included articles and development industry features sourced from a variety of construction related publications; and in some cases property marketing details. Collectively, our research enabled us to apply a level of "sense check" to our proposed assumptions, whilst necessarily acknowledging that this is high level work and that a great deal of variance is seen in practice from scheme to scheme. Further information is provided within Appendix III to this report.

2.2.13 In addition to testing the commercial uses of key relevance above, further consideration was given to other development forms that may potentially come forward locally. These include for example non-commercially driven facilities (community halls, medical facilities, schools, etc.) and other commercial uses such as motor sales / garages, depots, workshops, surgeries / similar, health / fitness, leisure uses (e.g. cinemas / bowling) and day nurseries.

2.2.14 Clearly there is potentially a very wide range of such schemes that could be developed over the life of the Local Plan and any first CIL Charging Schedule. Alongside their viability, it is also relevant for the Council to consider the likely frequency and distribution of these; and their role in the delivery of the emerging development plan overall. For these scheme types, as a first step it was possible to review (in basic terms) the key relationship between their completed value per square metre and the cost of building. We say more about this in Chapter 3.

2.2.15 Where it can be quickly seen that the build cost (even before all other costs such as finance, fees, profits, purchase and sale, etc. are allowed for) outweighs or is close to the completed value, it becomes clear that a scenario is not financially viable in the usual development sense being reviewed here and related to any CIL contributions scope. We are also able to consider these value / cost relationships alongside the range of main appraisal assumptions and the results that those provide (e.g. related to business development). This is an iterative process in addition to the main appraisals, whereby a further deteriorating relationship between values and costs provides a clear picture of further reducing prospects of viable schemes. This starts to indicate schemes that require other support rather than being able to produce a surplus capable of some level of contribution to CIL.

2.2.16 Through this process we were able to determine whether there were any further scenarios that warranted additional viability appraisals. Having explored the viability trends produced by examination of the cost/value relationships we found that in many other cases, completed scheme values were at levels insufficient to cover development costs and thus would not support any level of CIL.

2.3 Gross Development Value (Scheme Value) - Residential

2.3.1 For the residential scheme types modelled in this study a range of (sales) value levels (VLs) have been applied to each scenario. This is in order to test the sensitivity of scheme viability to geographical values variations and / or with changing values as may be seen with further market variations. In the case of Fenland and given the values variations seen in different parts of the district through the initial research stages, the VLs covered typical residential market values over the range £1,500 to £2,250/sq. m at £125/sq. m intervals and then, representing the less typical higher end values relevant in limited circumstances locally, to £2,750/sq. m in £250/sq. m intervals. These are described as VLs 1 to 9 - set out within Appendix I and at 2.3.8 (Figure 6 overview) below.

2.3.2 The CIL rates were trialled by increasing the rate applied to each scenario over a scale between £0 and £150/sq. m. By doing this, we could consider and compare the potential for schemes to support a range of CIL rates over a range of value levels. From our wider experience of studying and considering development viability and given the balance also needed with other planning obligations including affordable housing, exploration beyond the upper end £150/sq. m potential charging rate level trial was not considered relevant in the district. The CIL trial rates range would have been extended following initial testing outcomes, had this been considered necessary.

2.3.3 We carried out a range of our own research on residential values across the Council's area (see Appendix III). It is always preferable to consider information from a range of sources to inform the assumptions setting and review of results stages. Therefore, we also considered existing information contained within previous research documents including previous viability studies forming the evidence base for existing policies; from sources such as the Land Registry, Valuation Office Agency (VOA) and a range of property websites. This is in accordance with the CIL Regulations and Guidance which states that proposed CIL rates should be informed by 'appropriate available' evidence and that 'a charging authority should draw on existing data wherever it is available'. Our practice is to consider all available sources to inform our up to date independent overview, not just historic data or particular scheme comparables.

2.3.4 A framework needs to be established for gathering and reviewing property values data. In researching residential values patterns we considered that the Council's settlement hierarchy provided the best and most reflective, appropriate framework for gathering information. It was considered that this would also enable a view on how the values patterns compare with the areas in which the most significant new housing provision is expected to come forward.

2.3.5 Our desktop research considered the current marketing prices of properties across the district and Land Registry House Prices Index trends; together with a review of new build housing schemes of various types. This information was further supplemented by an updated review of Land Registry information, on-line property search engines and new build data where available alongside the results of the stakeholder consultation exercise. Together, this informed a district-wide view of values appropriate to this level of review and for considering the sensitivity of values varying. This research is set out at Appendix III.

2.3.6 Overall the research indicated that although the values seen were variable to some degree (a common finding whereby different values are often seen at opposing sides or ends of roads, within neighbourhoods and even within individual developments dependent on design and orientation, etc.), overall values did not alter significantly between the four main settlements (market towns) with variation coming more from and between the smaller settlements.

2.3.7 In relative terms values in Fenland are low, compared for example to those found in some other areas of Cambridgeshire. Values patterns are often indistinct and especially at a very local level. However, in this study context we need to consider whether there are any clear variations between settlements or other areas where significant development may be occurring in the context of the future district development strategy. It should also be noted that house price data is highly dependent on specific timing in terms of the number and type of properties within the data-set for a given location at the point of gathering the information. In some cases, small numbers of properties in particular data samples (limited house price information) produce inconsistent results. This is not specific to Fenland. Neither is the relatively small number of current new-build schemes from which to draw information. However these factors do not affect the scope to get a clear overview of how values vary or otherwise typically between the larger settlements and given the varying characteristics of the district including the large rural areas containing dispersed smaller settlements; as set out in these sections and as is suitable for the consideration of CIL.

2.3.8 The research and data sources behind our assumptions on values (as at Appendix III) - Background Data - are not included in the main part of this report. However, Figure 6 below indicates some key themes on values patterns across the district as observed through our research:

Figure 6: Indicative Settlement / Locality Relationship to Value Level (VL)

<table>
<tr><th colspan="2">Value (£/sq. m) – new build housing indications</th><th colspan="3">Example location – new-builds</th></tr>
<tr><td>VL1</td><td>£1,500</td><td rowspan="9">Overall Villages range</td><td rowspan="5">Chatteris, Wisbech, Whittlesey, March</td><td></td></tr>
<tr><td>VL2</td><td>£1,625</td><td></td></tr>
<tr><td>VL3</td><td>£1,750</td><td></td></tr>
<tr><td>VL4</td><td>£1,875</td><td rowspan="6">Manea, Wisbech St Mary Doddington, Wimblington</td></tr>
<tr><td>VL5</td><td>£2,000</td></tr>
<tr><td>VL6</td><td>£2,125</td><td></td></tr>
<tr><td>VL7</td><td>£2,250</td><td></td></tr>
<tr><td>VL8</td><td>£2,500</td><td></td></tr>
<tr><td>VL9</td><td>£2,750</td><td></td></tr>
</table>

2.3.9 The values that are assumed (as being available to support development) affect the consideration of viability of plan policies across the district and ultimately the level of CIL that can be charged without unduly affecting the viability of development. As will be outlined in Chapter 3, this process informed a developing view of how to most appropriately describe and cater for the values and viability levels seen through varying property values. Through on-going discussion and consideration of the various data sources, this evolved to a settled, evidenced view of the key characteristics of the district - to inform potential options for an appropriate local approach to the CIL charging process.

2.3.10 In addition to the market housing, the development appraisals also assume a requirement for affordable housing (AH). Fenland District Council's current approach is to seek affordable housing from sites of 5 or more units. The requirement is based on seeking 1 unit on sites of 5; 1 unit plus a financial contribution broadly equivalent to 0.2 of a further affordable home on sites of 6 units; 1 unit plus 0.4 financial contribution on sites of 7; 1 unit plus 0.6 financial contribution on sites of 8 and; 1 unit plus 0.4 financial contribution on sites of 9. On sites of 10 or more dwelling 25%

affordable housing is required. As this study needs to include the Local Plan policies in full we have included the full, policy compliant affordable housing requirement in each case. We note that the 25% AH policy was set within the scope of the previous (Affordable Housing) viability assessment findings. For the make-up of the affordable housing, we have assumed that approximately 70% is affordable rented tenure and 30% is 'intermediate' in the form of shared ownership (although again it should be noted that this tenure mix was accommodated as far as best fits the overall scheme mixes and affordable housing proportion in each scenario).

2.3.11 In practice many tenure mix variations could be possible; as well as many differing levels of rents derived from the affordable rents approach as affected by local markets and by affordability. The same applies to the intermediate (assumed shared ownership) element in that the setting the initial purchase share percentage, the rental level charged on the Registered Provider's (RP's - i.e. Housing Association or similar) retained equity and the interaction of these two would usually be scheme specific considerations. Shared ownership is sometimes referred to as a form of 'low cost home ownership' (LCHO). Assumptions need to be made for the study purpose.

2.3.12 For the on-site affordable housing, the revenue that is assumed to be received by a developer is based only on the capitalised value of the net rental stream (affordable rent) or capitalised net rental stream and capital value of retained equity (in the case of shared ownership tenure). Currently the Homes and Communities Agency (HCA) expects affordable housing of either tenure on s.106 sites to be delivered with nil grant input and this has been confirmed also by DCLG for the next round of affordable housing spending (Affordable Homes Programme 2015 – 2018). At the very least this should be the starting assumption pending any review of viability and later funding support for specific scenarios / programmes. We have therefore made no allowance for grant.

2.3.13 The value of the affordable housing (level of revenue received for it by the developer) is variable by its very nature. This may be described as the 'payment to developer', 'RP payment price', 'transfer payment' or similar. These revenue assumptions were reviewed based on our extensive experience in dealing with affordable housing policy development and site specific viability issues (including specific work on SPD, affordable rents, financial contributions and other aspects for other authorities). The affordable housing revenue assumptions were also underpinned by RP type financial appraisals. We considered the affordable rented revenue levels associated with potential variations in the proportion (%) of market rent (MR); up to the maximum allowed by the Government of 80% MR including service charge.

2.3.14 In broad terms, the transfer price assumed in this study varies between approximately 30% and 75% of market value (MV) dependent on tenure, unit type and value level. For affordable rented properties we introduced a revenue level cap by assuming that the Local Housing Allowance (LHA) levels will act as an upper level above which rents will not be set – i.e. where the percentage of market rent exceeds the Local Housing Allowance (LHA) rate. The average LHA rate for the two Broad Rental Market Areas (BRMAs) that cover Fenland District for the varying unit types was used as our cap for the affordable rental level assumptions.

2.3.15 In practice, as above, the affordable housing revenues generated would be dependent on property size and other factors including the RP's own development strategies and therefore could well vary significantly from case to case when looking at site specifics. The RP may have access to other sources of funding, such as related to its own business plan, funding resources, cross-subsidy from sales / other tenure forms, recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm for the purposes of setting viability study assumptions – it is highly scheme dependent and variable and so has not been factored in here.

2.3.16 Again, it is worth noting that affordable housing will not be liable for CIL payments where the levy is put in place. This is the case under the regulations nationally; not just in the Fenland context. The market dwellings within each scenario would carry any CIL payments burden.

2.4 Gross Development Value – Commercial / Non-residential

2.4.1 The value (GDV) generated by a commercial or other non-residential scheme varies by specific type of development and location. In order to consider the viability of various commercial development types, a range of assumptions needed to be made with regard to the rental values and yields that would drive the levels of the completed scheme values that would be compared with the various development costs to be applied within each commercial scheme appraisal. The strength of the relationship between the GDV and the development costs was then considered. This was either through residual valuation techniques very similar to those used in the residential appraisals (in the case of the main development types to be considered) or; a simpler value vs. cost comparison (where it became clear that a poor relationship between the two existed so that clear viability would not be shown - making full appraisals unnecessary for a wider range of trial scenarios).

2.4.2 Broadly the commercial appraisals process follows that carried out for the residential scenarios, with a range of different information sources informing the values (revenue) related inputs. Data on yields and rental values (as far as available) was from a range of sources including the VOA, EGi and a range of development industry publications, features and web-sites. As with the residential information, Appendix III sets out more detail on the assumptions background for the commercial schemes.

2.4.3 Figure 7 below shows the range of annual rental values assumed for each scheme type. These were then capitalised based on associated yield assumptions to provide a GDV for each scheme dependent on the combination of yield and rental values applied.

2.4.4 The rental values were tested at three levels representative of low, medium and high values relevant to each commercial / non-residential scheme type in the district. This enables us to assess the sensitivity of the viability findings to varying values. They are necessarily estimates and based on the assumption of new build development. This is consistent with the nature of the CIL regulations in that refurbishments / conversions / straight reuse of existing property will not attract CIL contributions (unless floor-space in excess of 100 sq. m is being added to an existing building; and providing that certain criteria on the recent use of the premises are met). In many cases, however, limited or no new build information for use of comparables exists, particularly given recent and current market circumstances. Therefore, views have had to be formed from local prevailing rents / prices and information on existing property and past research carried out on behalf of the Council. In any event, the amount and depth of available information varied considerably by development type. Once again, this is not a Fenland only factor and it does not detract from the necessary viability overview process that is appropriate for this type of study.

2.4.5 These varying rental levels were capitalised by applying yields of between 5.5% and 7.5% (varying dependent on scheme type). This envisages good quality new development, rather than relating to mostly older accommodation which much of the marketing / transactional evidence provides. As with rents, varying the yields enabled us to explore the sensitivity of the results given that in practice a wide variety of rental and yields could be seen. We settled our view that the medium level rental assumptions combined with 7.5% base yield (5.5% to 6.5% for large retail formats and hotels) were appropriate in providing context for reviewing results and considering viability outcomes. Taking this approach also means that it is possible to consider what changes would be needed to rents or yields to sufficiently improve the viability of non-viable schemes or, conversely, the degree to which viable scheme assumptions and results could deteriorate whilst still supporting the collective costs, including CIL.

2.4.6 It is important to note here that small variations can have a significant impact on the GDV that is available to support the development costs (and thus the viability of a scheme) together with any potential CIL funding scope. We consider this very important bearing in mind the balance that must be found between infrastructure funding needs and viability. Overly optimistic assumptions in the local context (but envisaging new development and appropriate lease covenants etc. rather than older stock), could well act against finding that balance.

2.4.7 This approach enabled us to consider the sensitivity of the results to changes in the capital value of schemes and allowed us then to consider the most relevant results in determining whether there was scope to set non-residential CIL rates across the district. As with other study elements, particular assumptions used will not necessarily match scheme specifics and therefore we need to look instead at whether / how frequently local scenarios are likely to fall within the potentially viable areas of the results (including as values vary). This is explained further in Chapter 3.

Figure 7: Rental Value for Commercial Schemes

Development Type		**Value Level (Annual Rental Indication £/sq. m)**		
		Low	Medium	High
Retail - larger format (A1) – convenience	Large Supermarket - Town centre	£150	£200	£250
Retail - larger format (A1) - comparison	Retail Warehousing - edge of centre	£75	£100	£125
A1- A5 - Small Retail	Other retail - town centre	£75	£100	£125
A1-A5 - Small retail*	Convenience Stores	£75	£125	£175
A1-A5 - Small Retail	Farm shop, rural unit, café or similar	£75	£125	£175
B1(a) Offices - Town Centre	Office Building	£50	£100	£150
B1(a) Offices - Out of town centre	Office Building (business park type - various)	£100	£125	£150
B1(a) Offices - Rural	Farm diversification, rural business centres, ancillary to other rural area uses	£100	£125	£150
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	£30	£50	£70
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	£30	£50	£70
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type). 60-bed.	£3,000**	£4,000**	£5,000**
C2 - Residential Institution	Nursing home / care home	£110	£130	£150

* Convenience stores with sales area of less than 3,000 sq. ft. (280 sq. m), assuming longer opening hours.

**per room per annum

Economic and market conditions

2.4.8 We are making this viability assessment following what appears to be the end of a period of significant recession which has seen a major downturn in the fortunes of the property market – from an international and national to a local level, and affecting all property types (residential and commercial). At the time of writing we appear to have come through a period of relatively weak and uncertain economic conditions with the economy and residential property market in particular show signs of renewed strength. At the point of closing-off the study, house prices are rising at a significant rate in many parts of the country, with London and the South East leading the trend. The rate of market pick-up is not consistent across the country, however. In the Fenland context, we have found that certainly the market has stabilised and there are signs of improvement reflected in local sentiment and agents' experiences in rent months. However, there is a lag in terms of the extent of the market pick up and rate of prices rises compared with the wider picture; a more modest assessment of the market and the way it is moving appears appropriate. Some recent forecasts however indicate the potential for UK house price inflation of between 21% - 30% by the end of 2018[8] for the East of England. Of course the local picture will be relevant to the planning obligations funding potential in Fenland, and only time will tell how that develops. Monitoring of the local market and periodic review of the overall viability picture is likely to be appropriate to assess the ongoing relevance of the current information and advice. In any event, in our experience most local authorities expect to review their position on CIL within say 3 to 4 years of initially considering its implementation.

2.4.9 The RICS Commercial Market Survey for Q1 of 2014 - stated that '*The Q1 2014 RICS UK Commercial Property Market Survey highlights a continued strengthening in both the occupier and investment sectors. This improvement is becoming increasingly broad based in both sectoral and regional terms; this is no longer just a London offices story*.

At the all-sector level, occupier demand increased while availability fell. With the market tightening, rents are expected to pick up further and the value of tenant inducements are falling. This broad pattern is also evident across the three subsectors (retail, office and industrial) and the survey's broad four regional groupings (London, the South, Midlands/Wales and the North).

While London offices are still the outperforming market segment, it is increasingly apparent in the survey that the market, ex-London offices, is beginning to shift up a gear. This is a welcome development given how unbalanced the commercial real estate sector had become in recent years and reflects the broader economic recovery underway.

In the investment market, buyer enquiries accelerated further at the all-sector level, pushing up survey respondents' confidence in the outlook for capital values. Again, the regional and sector breakdown of the results indicate that this improvement is taking place not just in London and not just in the office sector.

[8] Knight Frank Residential Research – UK Housing Market Forecast (Q42013 Edition); Savills – Residential Property Focus (Q2 2014)

The survey comments bear out a few interesting anecdotal points. First, while conditions in some secondary markets clearly remain challenging, there is a growing sense that some office tenants are beginning to revaluate the economics of renting prime versus secondary office space. Second, availability in some markets is falling not just because of strong tenant demand, but also because part of the stock is being converted for residential use.

Over the next twelve months, rents are projected to rise by around 4.5% in the office sector, by approximately 5.5% in the industrial segment and by just over 3% in the retail sector. On the same basis, capital values are forecast to increase by roughly 5% and 6% in the office and industrial sectors respectively, while retail sector gains are expected to be a slightly more modest 3%.'

2.4.10 As with residential development, consideration was given to the Fenland context for whether there should be any varying approach to CIL charging levels for commercial and other developments locally. On review, it was considered that variations in values and viability outcomes would be more likely to be the result of detailed site and scheme specific characteristics, and not necessarily driven by distinctions between general location (area) within the district so far as the likely location of such development is concerned, focussed in the early Plan timescales on the market (main) towns of March, Wisbech, Chatteris and Whittlesey. This was borne out on review of the commercial values data and results, as per the examples included at Appendix III.

2.4.11 As can be seen, there was some variety in terms of values within each of the main settlement areas and across the full range of locations in the district. However, there were tones of values which informed our rental and other assumptions for the appraisals, based on the upper end rental indications seen for business uses (offices and industrial / warehousing) as appropriate for high quality new build schemes and on the variety of indications seen for retail. In both cases these were taken from a combination of the VOA Rating List, EGi and other sources as far as were available whilst keeping the review depth proportionate and economic in the study overview context. In respect of other commercial / non-residential development types again a district-wide overview was considered appropriate.

2.4.12 Overall, we found that in the event of identifying scope to charge a CIL on commercial or non-residential development in viability terms, there is no clearly justifiable or readily definable approach to varying that through viability findings based on location / geography. Whilst certain specific scheme types could create more value in one location compared with another in the district, typically there was felt to be no clear or useful pattern which might be described for that. It must be accepted that there will always be variations and imperfections in any level of overview approach; with or without area based differentiation.

2.5 Development Costs – General

2.5.1 Total development costs can vary significantly from one site or scheme to another. For these strategic overview purposes, however, assumptions have to be fixed to enable the comparison of results and outcomes in a way which is not unduly affected by how variable site specific cases can be. As with the residential scenarios, an overview of the various available data sources is required and is appropriate.

2.5.2 Each area of the development cost assumptions is informed by data - from sources such as the RICS Building Cost Information Service (BCIS), any locally available soundings (stakeholder consultation) and scheme examples, professional experience and other research.

2.5.3 For this overview, we have not allowed for abnormal costs that may be associated with particular sites - these are highly specific and can distort comparisons at this level of review. Contingency allowances have however been made for all appraisals. This is another factor that should be kept in mind in setting CIL charging rates and ensuring those are not set to the 'limits' of viability. In some circumstances and over time, overall costs could rise from current / assumed levels. The interaction between values and costs is important and whilst any costs rise may be accompanied by increased values from assumed levels, this cannot be relied upon.

2.6 Development Costs – Build Costs

2.6.1 The base build cost levels shown below are taken from the BCIS. In each case the figure has been rebased to a Fenland location index (currently 108). Costs shown for each development type (residential and commercial) are provided in Appendix I.

Figure 8: Build Cost Data (BCIS lower quartile, Fenland Location Factor relevant at time of research)

Development use	Example property type	BCIS Build Cost (£/sq. m)*
Residential (C3)	Houses - mixed development	£849
	Houses – estate housing (generally)	£817
	Houses – one-off (3 units or less)	£1,148
	Flats - generally	£957
	Flats - Sheltered housing	£995
Retail - larger format (A1) – convenience	Large Supermarket - Town centre	£1,142
Retail - larger format (A1) - comparison	Retail Warehousing - edge of centre	£653
A1- A5 - Small Retail	Other retail - town centre	£788
A1-A5 - Small retail*	Convenience Stores – Towns / Service centres	£788
A1-A5 - Small Retail	Farm shop, rural unit, café or similar	£788
B1(a) Offices - Town Centre	Office Building	£1,443
B1(a) Offices - Out of town centre	Office Building (business park type - various)	£1,309
B1(a) Offices - Rural	Farm diversification, rural business centres, ancillary to other rural area uses	£1,309
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	£966
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	£673
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type). 60-bed.	£1,224 - £1,712**
C2 - Residential Institution	Nursing home / care home	£1,534

*excludes external works and contingencies (these are added to the above base build costs)

**all-in cost – range from budget to 4*+

2.6.2 Unless stated, the above build cost levels do not include contingencies or external works. An allowance for external / other works has been added to the above at 10% (residential) and 20% (commercial) of base build cost. These are based on a range of information sources and cost models and generally pitched at a level above standard levels in order to ensure sufficient allowance for the potentially variable nature of site works. The resultant build costs assumptions (after adding to the above for external works allowances but before contingencies and fees) are included at the tables in Appendix I.

2.6.3 For this broad test of viability it is not possible to test all potential variations to additional costs. There will always be a range of data and opinions on, and methods of describing, build costs. In our view, we have made reasonable assumptions which lie within the range of figures we generally see for typical new build schemes (rather than high specification or particularly complex schemes which might require particular construction techniques or materials). As with many aspects there is no single appropriate figure in reality, so judgments on these assumptions (as with others) are necessary. As with any appraisal input of course, in practice this will be highly site specific. In the same way that we have mentioned the potential to see increased costs in some cases, it is just as likely that we could also see cases where base costs, externals costs or other elements will be lower than those assumed. Once again, in accordance with considering balance and the prospect of scheme specifics varying in practice, we aim to pitch assumptions which are appropriate and realistic through not looking as favourably as possible (for viability) at all assumptions areas.

2.6.4 Further allowances have been added to the total build cost in respect of achieving higher sustainable design and construction standards (either in relation to building regulations or equivalent requirements – e.g. Code for Sustainable Homes / BREEAM). In the residential scenarios, this was applied to all dwellings assuming that construction standards met the requirements for the Code for Sustainable Homes enhancement to level 4 (CfSH L4). Initial sensitivity testing only, rather than full reporting, on further potential changes to Part L of the Building Regulations has also been undertaken assuming future compliance equivalent to meeting zero carbon requirements. We have utilised information within the DCLG Housing Standards Review Impact Assessment[9] and Zero Carbon Hub respectively[10]. Appendix I also provides information on the specific considerations made. Chapter 3 provides further commentary on this – discussed at 3.5.2).

2.6.5 An allowance of 5% of build cost has also been added to cover contingencies. This is a relatively standard assumption in our recent experience. Again, we have seen variations in practice - either side of this level.

2.6.6 Survey and normal site costs have been allowed for on a notional basis (£4,500 per unit for smaller residential scenarios; variable within the larger residential and commercial scenarios as per Appendix I).

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[9] DCLG – Housing Standards Review Consultation Impact Assessment August 2013 / EC Harris – Housing Standards Review – Potential Cost Impacts – Summary (June 2013)
[10] Zero Carbon Hub / Sweett Group – Cost Analysis: Meeting the Zero Carbon Standard (February 2014)

2.6.7 The interaction of costs and values levels will need to be considered again at future reviews for any CIL. In this context it is also important to bear in mind that the base build cost levels will also vary over time. In the recent recessionary period we saw build costs fall, but moving ahead they are expected to rise again, if only over the longer term. Costs peaked at around Q4 2007 / Q1 2008 but fell significantly (by more than 10%) to a low at around Q1 2010 (similar index point to that seen at around Q1- Q2 2004 levels). The index shows that, after modest rises in the first half of 2010, building costs have been at relatively consistent (flat) levels. This trend is forecast to continue with steady tender price increases forecast through to early 2017 (rising from about a 2% per annum increase in 2014 to 3.9% at the beginning of 2018). Clearly only time will tell how things run-out in comparison with these forecasts.

2.6.8 The latest available BCIS briefing (30th April 2014) stated on build cost trends:

'The General Building Cost Index rose by 0.3% in 4th quarter 2013 compared with the previous quarter, and by 1.3% compared with the same quarter in 2012.

Materials prices rose by 0.4% in the year to 4th quarter 2013 and nationally agreed wage rates rose by 1.6%. General inflation rose by 2.7% over this period.

Materials prices as a whole are expected to rise by under 2% over the first year of the forecast, on the back of weak upward pressure in raw materials prices. As the construction industry and the wider economy improves over the following years, it is anticipated that overall annual price increases will rise from 2.6% in 1st quarter 2016 to 3.8% in 1st quarter 2019. Looking at the global economy, and in particular the emerging economies, growth is not expected to rise fast enough to put significant upward pressure on materials prices throughout the forecast period.

From the standpoint of employees in the construction industry, their wage bargaining position is expected to improve on the back of increasing demand for construction work going forward. As a result, the average of wage settlements is forecast to rise from 2.6% in the year to 1st quarter 2015 to 3.9% over the last two years of the forecast period.

New orders for construction work rose by 2% in 4th quarter 2013 compared with the previous quarter, and by 4% compared with a year earlier. It should be noted that

ONS changed the methodology of data collection for construction orders in 2nd quarter 2013, without applying any conversion factor, which may continue to distort the yearly percentage changes through to 1st quarter 2014.

New work output recovered to modest growth in 2013, and growth is expected to become stronger as the economy as a whole picks up. However, some sectors and regions will lag behind. Construction demand is not expected to return to its pre-recession level until 2016.

Tender prices have risen by 7% over the past year, and it is now felt that short term capacity issues may keep increases higher over the next year, as contractors struggle with the increase in workload. This was one of our alternative scenarios given previously. Tender prices are therefore expected to rise by 6.1% over the first year of the forecast period. Tender prices are then predicted to slow to around 4.6% over the following year, as the industry begins to cope with the increased workload. Over the remaining years of the forecast, tender prices are expected to rise by around 5.2% per annum, driven by increasing demand and upward pressure from input costs. Tender prices are forecast to have risen by around 26% above the pre-recession peak by the end of the forecast period.'[11]

Annual % Change	**1Q12 to 1Q13**	**1Q13 to 1Q14**	**1Q14 to 1Q15**	**1Q15 to 1Q16**	**1Q16 to 1Q17**	**1Q17 to 1Q18**	**1Q18 to 1Q19**
Tender Prices	+9.3%	+3.8%	+6.1%	+4.6%	+5.2%	+5.3%	+5.3%
Building Costs	+1.3%	+0.3%	+2.2%	+3.1%	+3.0%	+3.8%	+3.9%
Nationally Agreed Wage Awards	+1.4%	+1.4%	+2.6%	+3.0%	+3.6%	+3.9%	+3.9%
Materials Prices	0	+0.8%	+1.5%	+2.6%	+2.9%	+3.2%	+3.8%
Retail Prices	+3.1%	+2.7%	+3.3%	+2.9%	+3.1%	+3.4%	+3.6%
Construction New Work output*	-11.3%	+1.0%	+5.1%	+6.1%	+5.8%	+6.0%	+6.1%
* Year on Year (1Q12 to 1Q13 = 2012 to 2013)							

(Data Source: BCIS)

[11] BCIS Quarterly Briefing - Five Year Forecast of Building Costs and Tender Prices (April 2014)

2.7 Development Costs – Fees, Finance & Profit (Residential)

2.7.1 The following costs have been assumed for the purposes of this study alongside those at section 2.6 above and vary slightly depending on the scale and type of development (residential or commercial). Other key development cost allowances for residential scenarios are as follows (Appendix I also provides a summary):

Professional fees:	*Total of 10% of build cost*
Site Acquisition Fees:	*1.5% agent's fees* *0.75% legal fees* *Standard rate (HMRC scale) for Stamp Duty Land Tax (SDLT).*
Finance:	6.5% p.a. interest rate *(assumes scheme is debt funded)* *Arrangement fee variable – basis 1-2% of loan*
Marketing costs:	*3.0% - 6.0% sales fees* *£750 per unit legal fees*
Developer Profit:	*Open Market Housing – 20% GDV* *Affordable Housing – 6% of GDV (affordable housing revenue).*

2.8 Development Costs – Fees, Finance & Profit (Commercial)

2.8.1 Other development cost allowances for the commercial development scenarios are as follows:

Professional and other fees:	*12% of build cost*
Site Acquisition Fees:	*1.5% agent's fees* *0.75% legal fees* *Standard rate (HMRC scale) for Stamp Duty land Tax (SDLT)*
Finance:	*6.5% p.a. interest rate (assumes scheme is debt funded)*

	Arrangement fee variable – 1-2% loan cost
<u>Marketing / other costs</u>:	*(Cost allowances – scheme circumstances will vary)* *1% promotion / other costs (% of annual income)* *10% letting / management / other fees (% of assumed annual rental income)* *5.75% purchasers costs – where applicable*
<u>Developer Profit</u>:	*20% of GDV*

2.9 Build Period

2.9.1 The build period assumed for each development scenario has been based on BCIS data (using its Construction Duration calculator - by entering the specific scheme types modelled in this study) alongside professional experience and informed by examples where available. The following build periods have therefore been assumed. Note that this is for the build only; lead-in and extended sales periods have also been allowed-for on a variable basis according to scheme type and size, having the effect of increasing the periods over which finance costs are applied (see Figure 9 as follows):

Figure 9: Build Period

Development Use Type	Scheme Type	Build Period (months)
Residential (C3)	1 House	6
	5 Houses	6
	9 Houses	9
	10 Houses	9
	15 Houses	12
	30 Mixed	12
	30 Flats (Sheltered)	18
	50 Mixed	18
	100 Mixed	24
	300 Mixed	60*
	1,000 Mixed	78*
	2,000 Mixed	120*
Retail - larger format (A1) – convenience	Large Supermarket - Town centre	12
Retail - larger format (A1) - comparison	Retail Warehousing - edge of centre	7
A1- A5 - Small Retail	Other retail - town centre	6
A1-A5 - Small retail	Convenience Stores – Towns / Service centres	6
A1-A5 - Small Retail	Farm shop, rural unit, café or similar	6
B1(a) Offices - Town Centre	Office Building	6
B1(a) Offices - Out of town centre	Office Building (business park type - various)	12
B1(a) Offices - Rural	Farm diversification, rural business centres, ancillary to other rural area uses	6
B1, B2, B8 - Industrial / Warehousing	Start-up / move-on unit	6
B1, B2, B8 - Industrial / Warehousing	Larger industrial / warehousing unit including offices - edge of centre	9
C1 - Hotel	Hotel - various types - tourism-led (range dependant on market / type). 60-bed.	14
C2 - Residential Institution	Nursing home / care home	16

* Assumes multiple developers on site.

2.10 Other planning obligations - Section 106 ('s.106') Costs

2.10.1 Current guidance states the following with regard to CIL: "*At examination, the charging authority should set out a draft list of the projects or types of infrastructure that are to be funded in whole or in part by the levy (see Regulation 123). The charging authority should also set out any known site-specific matters for which* *section 106 contributions may continue to be sought. This is to provide transparency about what the charging authority intends to fund through the levy and where it may continue to seek section 106 contributions"*[12]. The purpose of the list is to ensure that local authorities cannot seek contributions for infrastructure through planning obligations when the levy is expected to fund that same infrastructure. The Guidance[12] states that where a change to the Regulation 123 list would have a significant impact on the viability evidence that supported examination of the charging schedule, this should only be made as part of a review of that charging schedule. It is therefore important that the level of planning obligations assumed in this study reflects the likely items to be funded through this route.

2.10.2 On discussion with the Council it was considered that if CIL were to be implemented then with the exception of major strategic sites, a majority of existing Planning Obligation requirements on future schemes would be taken up within the CIL proposals, but nevertheless that small scale site-specific requirements (perhaps dedicated highways improvements / alterations, open space related or similar requirements) could remain alongside CIL in some circumstances. The appraisals therefore included a notional sum of £2,000 per dwelling (for all dwellings – including affordable - and all schemes) on this aspect purely for the purposes of this study and in the context of seeking to allow for a range of potential scenarios and requirements – effectively as an additional contingency in respect of any residual s.106 requirements.

2.11 Indicative land value comparisons and related discussion

2.11.1 As discussed previously, in order to consider the likely viability and potential scope for a range of potential (trial) CIL contribution rates in relation to any development scheme, a comparison needs to be made between the outturn results of the development appraisals (in terms of RLV) and some benchmark or known land value. As suitable context for a high level review of this nature, DSP's practice is to compare the wide range of appraisal RLV results with a variety of potential land value comparisons. This allows us to consider a wide range of potential scenarios and outcomes and the viability trends across those. This approach reflects the varied land supply picture that the Council expects to see, including the occurrence of greenfield sites and schemes coming forward on previously developed former commercial /

[12] Planning Practice Guidance (June 2014) http://planningguidance.planningportal.gov.uk/blog/guidance/community-infrastructure-levy/

employment land as well as reuse and intensification of existing residential sites and garden areas.

2.11.2 The scale of the difference between the RLV and comparative land value level (i.e. surplus after all costs (including policy costs), profit and likely land value expectations have been met) in any particular example, and as that changes between scenarios, allows us to judge the potential CIL funding scope. It follows that, in the event of little or no surplus or a negative outcome (deficit), we can see that, alongside the other costs assumed, there is little or no CIL scope once all other assumed normal costs have been allowed for.

2.11.3 This also needs to be viewed in the context that in terms of CIL, invariably (as we see across a range of strategic level viability studies) the levy rates are usually not the main factor in the overall viability outcome. Market conditions and whether a scheme is inherently viable or not (i.e. prior to CIL payment considerations) tend to be the key factors and this especially true in the Fenland context. Typically, small shifts in the CIL trial rate significantly affect viability only in the case of schemes that are already marginally viable (prior to considering CIL) and so at a tipping-point of moving to become non-viable once CIL is imposed or other relatively modest costs (in the context of overall development costs) are added. Sales values, land value expectation and policy costs such as affordable housing or the move towards zero carbon development will tend to create much larger viability impacts on schemes. As the inherent viability of schemes improves then even a larger increase in the CIL trial rate is often not seen to have a very significant impact on the RLV and therefore likely viability impact by itself. As the trial CIL rate increases it is usually more a matter of relatively small steps down in reducing viability and so also considering the added risk to developments and the balance that Councils need to find between funding local infrastructure and the viability of development in their area.

2.11.4 In order to inform these land value comparisons or benchmarks we sought to find examples of recent land transactions locally. Limited evidence of such was available from the various soundings we took and sources we explored. We also reviewed information sourced as far as possible from the VOA, previous research / local studies / advice provided by the Council, stakeholder consultation, EGi; and from a range of property and land marketing web-sites. Details of the research are provided in Appendix III.

2.11.5 Each of the RLV results is compared to a range of land value levels representing potential values for sites of varying types of PDL previously developed land – i.e. brownfield) and greenfield sites; envisaging a potential spectrum of sites from greenfield through lower and then upper value commercial land and sites with existing residential use. Again, scheme specific scenarios and the particular influence of site owners' circumstances and requirements will be variable in practice.

2.11.6 In terms of the VOA, data available for comparison has reduced significantly since the July 2009 publication of its Property Market Report (PMR), with data provided only on a limited regional basis in the later reporting. The VOA now no longer produces a PMR and suggests that caution should be used when viewing or using its data. Nevertheless in areas where it is available, the data can provide useful indicators, certainly in terms of trends.

2.11.7 As can be seen at Appendices IIa and IIb (residential and commercial scenarios results respectively), we have made indicative comparisons at land value levels in a range between £250,000/ha (approximately £100,000/acre), indicating around the minimum level which it was considered land would trade at, and £1,000,000/ha (approximately £405,000/acre) as an upper-end comparison. The latter level is not regularly applicable in the Fenland market, however the methodology uses a wide range to add to the results review context; so that we can see where our RLVs fall in relation to these levels and the overall range between them.

2.11.8 The land value indications are based on a review of available information from site specific reviews, local research (including stakeholder soundings) and research carried out by others in carrying out viability studies both for Fenland and neighbouring authorities. For a range of sites, the most critical area – the minimum value applicable for the purposes of an assessment such as this – is approximately £100,000 to £150,000/acre (i.e. £250,000 to £370,000/ha). This applies particularly for greenfield land, but in the local context in practice may well prove a sufficient level for the purchase of a variety of sites except where existing residential sites are pursued for redevelopment / intensification of development, for sites in the less frequent higher value areas / larger properties or higher value commercial development (such as some forms of retail).

2.11.9 Overall, for the review of the results summary tables (Appendix IIa and b) and to provide an overview guide as to their strength, in this case we decided to sub-divide the full land values comparison range into £250,000/ha bands within the wider range. These are shown as 'viability tests' as follows (see figure 10 below) within the Appendix II table footnotes. For greenfield land, using the above minimum £250,000/ha and bearing in mind the £370,000/ha or so likely upper figure, the range £250,000 to £500,000 best represents the key area of the results. On PDL land, typically we might expect to see land value indications in the region of £500,000 to £750,000/ha and the upper part of the overall range (as at 2.11.7 above) better represents the likely range of scenarios for typically smaller, previously developed sites (PDL).

Figure 10: Land value indicative comparisons range (benchmarks)

Key:		RLV Lower than Via RLV Lower than viability test 1
		Positive RLV beneath Viability Test 1 (RLV <£250,000/ha)
		RLV exceeding Viability Test 1 (RLV £250,000 - £500,000/ha)
		RLV exceeding Viability Test 2 (RLV £500,000 - £750,000/ha)
		RLV exceeding Viability Test 3 (RLV >£750,000 - £1,000,000/ha)
		RLV exceeding Viability Test 4 (RLV >£1,000,000/ha)
Source: Dixon Searle LLP (2014)		

2.11.10 To recap, for this assessment purpose (and not as any other guide / target / fixed level / rule of thumb or similar) the minimum land values likely to incentivise release for development under any circumstances is probably around £250,000/ha in the Fenland context. Land values at those levels are likely to be most relevant to development on greenfield land (or enhancement to amenity land value) and therefore relatively commonly occurring across the district. Therefore this could be relevant for consideration as the lowest base point for enhancement to greenfield land values (with agricultural land reported by the VOA to be valued at around £20,000/ha in existing use, verified by our own research). The HCA issued a transparent assumptions document which referred to guide parameters of an uplift of 10 to 20 times agricultural land value. This sort of level of land value could also be relevant to a range of less attractive locations or land for improvement. This is not to say that land value expectations would not go beyond these levels – they could well do in a range of circumstances.

2.11.11 As well as a level of value relating to an existing or alternative use driving a site's value ('EUV' or 'AUV'), there may be an element of premium (an over-bid or incentive) required to enable the release of land for development. The HCA's draft document 'Transparent Viability Assumptions' that accompanies its Area Wide

Viability Model suggests that '*the rationale of the development appraisal process is to assess the residual land value that is likely to be generated by the proposed development and to compare it with a benchmark that represents the value required for the land to come forward for development*'. This benchmark is referred to as threshold land value in that example: '*Threshold land value is commonly described as existing use value plus a premium, but there is not an authoritative definition of that premium, largely because land market circumstances vary widely'*. Further it goes on to say that '*There is some practitioner convention on the required premium above EUV, but this is some way short of consensus and the views of Planning Inspectors at Examination of Core Strategy have varied*'.

2.11.12 RICS Guidance[13] refers to site value in the following '*Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan… The residual land value (ignoring any planning obligations and assuming planning permission is in place) and current use value represent the parameters within which to assess the level of any planning obligations'.*

2.11.13 In the Local Housing Delivery Group report[14] chaired by Sir John Harman, it is noted that '*Consideration of an appropriate Threshold Land Value needs to take account of the fact that future plan policy requirements will have an impact on land values and landowner expectations. Therefore, using a market value approach as the starting point carries the risk of building-in assumptions of current policy costs rather than helping to inform the potential for future policy. Reference to market values can still provide a useful 'sense check' on the threshold values that are being used in the model (making use of cost-effective sources of local information), but it is not recommended that these are used as the basis for the input to a model.*

We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values'.

2.11.14 These types of acknowledgements of the variables involved in practice align to our thinking on the potential range of scenarios likely to be seen. As further

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[13] Financial Viability in planning – RICS Guidance note (August 2012)
[14] Local Housing Delivery Group – Viability Testing Local Plans (June 2012)

acknowledged later, this is one of a number of factors to be kept in mind in setting suitable rates which balance viability factors with the infrastructure needs side.

2.11.15 We would stress here that any overbid level of land value (i.e. incentive or uplifted level of land value) would be dependent on a ready market for the existing or other use that could be continued or considered as an alternative to pursuing the redevelopment option being assumed. The influences of existing / alternative uses on site value need to be carefully considered. At a time of a low demand through depressed commercial property market circumstances, for example, we would not expect to see inappropriate levels of benchmarks or land price expectations being set for opportunities created from those sites. Just as other scheme specifics and appropriate appraisal inputs vary, so will landowner expectation.

2.12 Next steps of review

2.12.1 Essentially this approach leads, within Appendices IIa and IIb, to the comparison of the many appraisal RLV results in £s per hectare (£/ha) to a range of potential land value indications; with the RLVs there having taken into account all values and costs including varying levels of CIL and the FDC affordable housing policy (all as explained above). Further information for the review context is set out within the wider research as included at Appendix III.

2.12.2 The following chapter, 3 – 'Findings', uses the assessment process and assumptions described above to review the strength of the relationship between the development values and costs; as can be viewed through the series of tables at Appendices IIa and IIb where the individual appraisal results (the RLVs) are reported and measured against the series of indicative land value comparison levels using a traffic light type guide. We can see the results changing - as general trends - dependent on the assumptions combination of value and CIL level; improving in strength with increasing sales value (GDV) and reducing in strength with increasing trial CIL rate.

2.12.3 Viewed in the context of the information review, market research, local soundings etc. – the available information – these findings inform our recommendations. It allows a two stage "filtering" type process, whereby firstly we can quickly see the assumptions combination(s) (as at 2.12.1 above) that clearly do not support CIL funding scope (in particular the red coloured table areas) and also those that may do (the table areas with green graded colouring). In the case of the former, we can consider the extent to which revised assumptions might improve results; but not to the point that any assumptions mean that viability may be pushed to the margins. In the case of the latter, the more positive results, through a second closer review stage we then consider the detail and the relevance of the results that do indicate capacity for CIL after all other costs (including affordable housing) have been allowed for; i.e. to what extent do those reflect realistic scenarios likely to occur, and to be relevant in overall Plan delivery terms in Fenland.

2.12.4 The tables (residential – numbered 1a to 1i within Appendix IIa, and commercial - 2 to 6 within Appendix IIb) provide most of the information necessary, but the following sections aim to explain further by outlining the findings from this review process and then going on to set out our recommendations in respect of CIL that flow from the findings. Where possible, any options / alternatives for potential consideration are set out – for example where circumstances do not fit the general findings. However, any such circumstances need to be considered in the context of striking an appropriate balance overall for the local area (as noted in section 1), and for example bearing in mind:

- their relevance to the Local Plan delivery overall;
- what any exceptions may mean for any limited CIL implementation - administration, receipts levels, etc.;
- the CIL principles that aim for a simple, consistent, readily understood planning obligations set up, and

3 Findings

3.1 Introduction, values patterns and relationship with the Local Plan.

A guide to the results and appendices tables

3.1.1 Results summaries are included within the tables at the Appendices to the rear of this report, as follows:

- Appendix IIa (residential scenarios – tables 1a to 1i and appraisal summaries that follow those tables);
- Appendix IIb (commercial / non-residential scenarios – tables 2 to 6 and, following, relevant appraisal summaries);

3.1.2 In each case these reflect the scenarios explained in Chapter 2 (assessment methodology) and summarised at Appendix I (assumptions overview).

3.1.3 Within Appendix IIa (together with equivalent IIb for commercial) the tables refer to the potential relevance / occurrence of the scenarios, on an overview basis and bearing in mind that in practice each site will be different. As noted previously, the process included consideration of the varying site types relevant to schemes on greenfield land and PDL of varying types (e.g. from former commercial / non-residential existing uses to land with established residential use such as the redevelopment of existing housing). Across this range of site types, varying land values will be relevant to some extent.

3.1.4 Development, overall, looks set to be a mix of greenfield and PDL site based. In terms of overall plan relevance and total planned new housing provision, greenfield sites providing settlement extensions and accommodating larger scale development are expected to play an important role. FDC will need to consider our findings in the context of the housing delivery pattern. In practice, as discussed, we consider that the £250,000 to £500,000/ha comparisons are likely to be the most relevant overall in terms of an area-wide view of development. Viewed overall, the vast majority of development over the Plan period, in the order of 11,000 new homes, looks set to be from larger / strategic scale greenfield sites (see 1.2.3 above). Overall, approximately 9,800 homes are expected to be provided in or at the market towns, with the remainder (approximately 1,200 in total) spread across a variety of locations. This does not underplay contribution made by and therefore the ongoing importance of new provision from the smaller sites that are likely to continue to come forward, and for which higher land values may well be relevant to some degree. Those may include individual plots, although some of those at least will be treated in self-build terms for CIL, and small numbers of plots; and be more likely to occur on PDL.

Key points:

The location and types of development contributing to Fenland's new housing provision is a key theme to consider alongside the residential viability findings.

In terms of overall Plan delivery, most relevant for Fenland are the viability findings representative of the strength of the typical relationship between development values and costs in or around the 4 towns of March, Chatteris, Wisbech and Whittlesey.

3.1.5 The included assumption on affordable housing (AH), set according to the scenario type and its relationship with the existing policy thresholds, is shown in the grey column at the far left hand side of the Appendix IIa tables - 20% on sites of 5 to 9 dwellings; 25% at 10 or more. AH has been tested based on the assumption of the Council's fully applied policy as per the recently adopted Local Plan. That policy set, in general, forms the up to date basis for the viability testing for and consideration of the CIL.

3.1.6 Each of the Appendix IIa tables also shows for that development scenario (as titled at the top alongside the table number) the resulting RLVs (£) and RLVs/ha (£/ha) from the tests at each value level (VL) across the range of trial CIL charging rates (£0 to £150/sq. m in respect of the residential and commercial sets, moving from left to right).

3.1.7 Following the main results tables sets within Appendix IIa and IIb (as described above), sample appraisal summaries are included to further explain the appraisal structure - for those readers wishing to review.

3.1.8 Tables 2 to 6 at Appendix IIb include the equivalent information for the commercial / non-residential scenarios testing undertaken – only where full development appraisals were carried out (retail, offices, industrial / warehousing, hotel and residential institution (nursing /care home). These tables show in their heading the rental yield % assumed for each set. They are to be reviewed bearing in mind the potential relevance of each yield % sensitivity test according to the development use type. For example at the lower yield tests (5.5% and 6.0% - Appendix IIb, tables 2 and 3), these were considered to best represent the end at which the assumptions would be most relevant to any larger format retail (supermarket and retail warehousing) developments.

3.1.9 Overall, the range of yield %s used assumes good quality, well-located new-build development as will be relevant to the Local Plan and to CIL. It should be noted that in respect of some development uses in the local context (particularly the 'B' (business) Class uses) the yield % tests shown are very much at the positive end of the potential range that could be seen and are used so that we can see to what extent realistic assumptions support positive scheme viability and, from there, any scope for CIL payments. For the development use types considered, where poor or only very marginal outcomes were seen generally (B, C1 and C2 Uses – business, hotels, care / nursing homes) we can see that results would deteriorate further with increased yield % trials as may be applicable to development in this locality in practice. Certainly in our view we could not expect to reply on more positive assumptions than the combination of lower yields and higher rents amongst the ranges that we have explored through the testing.

3.1.10 As noted at 3.1.3, only the results relating to key commercial / non-residential development trials are included at Appendix IIb. This is because the early stages consideration of the strength of relationship between the values and build costs quickly showed there to be no point developing the full testing process beyond initial stages. This applied where certain scenarios were seen to be clearly unviable as development uses based on the range of assumptions applied. We will pick up this area with further commentary later in this chapter; see section 3.8 including Figure 11 below.

3.1.11 In the current climate and Fenland context, in the face of competition from more established and higher value commercial locations nearby, it is likely that even the higher yield % tests used – i.e. those at 6.5% to 7.5% yield trials (results at Appendix IIb tables 4 to 6) - may well represent too positive a scenario in at least some cases, and particularly for the B uses, together with others outside retail or perhaps hotel use. However, as above, the wider trials served the purpose of exploring how positive the assumptions would need to become to support viability where poor initial outcomes were seen at what were considered to be the more realistic end of the assumptions ranges and, hence, potentially, how far they would need to move so as to provide scope for CIL charging. It follows that if those and other scenarios (including for hotels and similar uses) produce poor results with these assumptions then we can see that the results would deteriorate further (become increasingly negative) with a range of less favourable yield % (or other) assumptions that might be seen in practice at the time of review and also as an anticipated short term future position.

3.1.12 In summary the Appendix IIa (and, below, IIb) results tables show:

- Left side column: Scheme scenario. This summarises the dwelling numbers / scheme type and, for residential scenarios at tables 1a to 1i, the AH policy requirement or sensitivity variation tested. For each results set the assumed AH% is stated in accordance with the FDC 5 and 10 dwellings thresholds and the 0%, 20% and 25% respectively applied targets beneath and at those. As noted above, the range of results also allows wider consideration of the impact of these thresholds, and could be of further relevance if a minimum 10 dwellings threshold is applied at a national level subsequent to the outcome of the Government’s consultation on this earlier this year.

- Across the top grey row: other assumptions headings and the increasing ‘trial CIL charging rate’ tested from £0/sq. m to the points at which the results deterioration was considered too great; applied across all scheme scenarios and variations at £10/sq. m intervals for both residential (Appendix IIa to IIi) and commercial (Appendix IIb) scenarios. This very fine grained approach was considered appropriate based on an overview of very early stages appraisal findings; the need to explore the impact of low levels of, and small changes in, the CIL charging tests (trial rates). Interpolation between results (e.g. CIL trial steps or values levels) is also possible, although as undertaken this is really not necessary.

- Within the table section for each residential scenario type and AH assumption variation, the increasing market sales value level (VL) test levels for each scenario, shown by the overall range VL 1 (lowest) to 9 (highest) used to test the sensitivity of the outcomes to the varying values of new-build housing – full potential range, rather than limited to the typical current range. Overall, this covers values from £1,500 to £2,750/sq. m (approximately £139 to £255/sq. ft.). This range enables us to consider viability as influenced by location and by the market (e.g. including values falling or rising from current typical levels). The well- established approach provides full context for considering the potential for the varying value levels to support viable developments with reference to considering the viability scope for CIL funding in the context of the Plan delivery. It should also be noted that for the 30 unit apartments scenario included at this stage, envisaging retirement (sheltered type) housing, we looked at a higher values range from the upper end of the typical range above – reflecting our view of the expected location characteristics and premium level pricing of most new-build schemes of that type; a common observation made through our wider work (e.g. table 1f within Appendix IIa refers).

- The lowest market values sensitivity tests at £1,500 to £1,625/sq. m are considered relevant only to lower-end or falling values in the district and in any event not likely to occur with any regularity; particularly not outside the market towns of March, Chatteris, Wisbech and Whittlesey. We also found some clear indications that such locations support some notably higher new-build values, however with CIL principles we need to consider overall patterns and trends. At the other end of the scale, through a range up to around £2,750/sq. m, certain smaller settlements within the district's rural areas typically command the highest prices within the district. Appendix III provides more information. Doddington and Wimblington were found to be examples of settlements that were considered to typically support significantly higher new build values – potentially towards the upper end of the overall range of sensitivity tests.

- The area of the overall values range currently considered most relevant to the district context, to the Local Plan and to any CIL that would support it, is represented by the lower mid-range values assumptions. These are VLs 3 to 5; covering the range approximately £1,750 to £2,000/sq. m (i.e. approximately £162 to 186/sq. ft.) viewed realistically in the current more buoyant market scenario rather than through focussing on the higher value examples also found. Values at these levels most closely represent the local markets in and around the key areas for growth – the 4 main towns as above. Looking at it now, we consider that further larger scale or strategic scale development would command similar housing values to those within this lower to middle part of our overall assumptions range. There is the potential for great variation to be seen within and across the district overall at a site-specific level. However, the achievable values most relevant to overall plan delivery, as noted above, need to be the review focus for the consideration of the viability scope potentially available to support a CIL on a reliable, deliverable basis. Viewed in this way, overall we found there to be little key variation in the value levels that matter; a fairly flat picture of most relevant values was seen.

Key point:

At the current time, values not exceeding VL5, and more usually within the range VL 3 to 5, are considered the most representative for new-build housing in the locations most relevant to overall Plan delivery.

- Under each commercial / non-residential scheme type (Appendix IIf): Increasing value (this time meaning rental value that underpins the completed scheme (sale) value – or GDV - in combination with the yield %) – L (low); M (medium); H (high). The medium value levels were considered to be the key area regarding current balanced interpretation of results. 'L' and 'H' allow us to consider the sensitivity of outcomes flowing from lower or higher values, related to varying scheme type / location; and / or market movements. As with the yield trials, in the case of poor viability outcomes, they provide context by helping us to gauge the extent to which the values would need to increase to provide viable scheme results where the medium level results are poor or marginal. Similarly, we can develop a feel for how sensitive the better viability indications are to a reduction in values as could be seen through any further weakening of commercial property market conditions. For context here, in our wider work we are seeing that for prime sectors and locations the commercial market is beginning to show signs of picking-up from the recession period in some respects. To date, however, as a general rule that appears to hold true for Fenland at a level appropriate to CIL considerations, the signs of market pick-up are not nearly so evident in areas such as this, where there is not a significant well-established prime commercial property offer within the district.

- Main areas of results in table sets 1 and 2 to 6: RLV appraisal results for each set expressed in £s within the white / grey and white areas (top section – residential tables 1a to 1i); left-side section (commercial – tables 2 to 6) and in £/ha within the coloured table areas (lower section – residential; right-side section - commercial) given the assumed scenario type, density / site coverage, etc.

generated by each individual appraisal within the set and stated by table (to be viewed alongside the overall assumptions outline at Appendix I).

- Within each of those sections, the coloured table cells (see below) act as a guide to the trends seen across the range of results as represent the scenarios relevant to considering the scope for potential CIL charging in the context of the emerging plan. The trial CIL rates – in £/sq. m - shown across the top row are applied as a key part of the process of exploring the effect on likely viability. These trial rates are considered in combination with the key areas of potential policy that impact on viability. The noted affordable housing %s are the key factor in that respect, but also allowances were made for other Plan policies / wider requirements that at this stage are considered likely to have a direct development cost implication.

- The overall trends show lower RLVs and therefore increased viability impact (reduced viability outcomes) as those trial CIL charging rates increase (moving from left to right within all Appendix IIa – and for commercial, IIb - tables).

- The emerging results did not warrant further exploration of higher potential CIL charging rates alongside the Local Plan policy considerations – see below.

- It is important to note that the colour-coding shown on the tables at Appendices IIa and IIb provides only a rough guide – it helps to highlight the general results trends, as noted above. Based on the accepted nature of such an exercise, i.e. this not being an exact science - this guide to the trends must not be over-interpreted as representing any strict cut-offs as regards viability / non-viability. In practice, switch-points between viability and non-viability will be variable and this process explores the likelihood of various realistically assumed values and costs (including potential CIL rates) proving to be workable and therefore achieving the most appropriate points for finding balance between viable CIL rates and the high level of the local infrastructure needs.

- The colours within the results tables therefore show trends in accordance with a general grading that indicates increased confidence levels in the viability results ranging from red (representing poor outcomes – negative RLVs clearly failing the lowest tests considered – i.e. clear non-viability on the basis of the necessary approach to CIL viability study assumptions) to the boldest green-coloured results (indicating the greatest level confidence in viability across a wider range of land value comparisons representing different host site types and locations). There are no precise cut-offs or steps in terms of the results interpretation. In practice a range of outcomes within the non-red table areas could prove viable depending on particular scheme and site circumstances. The foot-notes to the Appendix IIa and IIb tables describe these as a series of 'viability tests' (see 2.11.9 and associated text above), referring to the various land value comparison levels considered:

- Red coloured table cells (results) – negative RLVs – schemes in financial deficit or in any event representative of clearly poor viability outcomes – no prospect of viable schemes based on the collective assumptions used in each case. In most of the table rows that have part red or part red shading, the CIL trial rate is seen to have relatively little impact on scenarios that are inherently unviable as viewed using the assumptions made.

- Pale green cells – Positive RLVs, but indicating reduced confidence in results in respect of smaller sites and some PDL scenarios in particular. Potentially representative of scenarios that may be workable on some lower value PDL (former commercial land) or (usually with greater confidence) on greenfield sites.

- Mid-green cells - considered to provide improving to good viability prospects in a range of circumstances meeting a wider range of likely land value expectations / high level of scope for enhancement to greenfield land use values; but possibly not reaching sufficient levels in the case of a limited range of high-value commercial / non-residential developments (e.g. potentially large format retail / similar scenarios). Therefore whilst these results indicate workable schemes on a range of previously developed land (PDL) site types, they may be viewed with a lower confidence level overall than the darker green shaded RLV indications (as above) that are considered to have the best viability prospects.

- Boldest green coloured cells - considered to provide very good viability prospects; the best results from the range produced; likely to be workable across the full range of site types in most overall plan relevant circumstances.

- The table footnotes provide a reminder of the land value benchmarks (indicative comparisons) applied in arriving at this picture; crucially all bearing in mind the context and explanations provided within this report. The same principles are applied in respect of the Appendix IIb tables 2 to 6 commercial scenario outcomes.

3.1.13 In addition, the results Appendices (IIa and b) contain sample appraisal summary information. Bearing in mind the study purpose and nature, these are not the full appraisals or sets, given the volume and added complexity of information that would involve reproducing. They are intended to provide an overview of the basic calculation structures and the outcomes; and to further help an understanding of how residual land valuation principles have been used here. The summaries included represent a selection of scheme / use types with a focus where, ultimately, positive CIL charging scope and recommendations have been made. To reiterate, appraisal summaries are not included for the full range of scenarios that were considered non-viable or insufficiently viable to clearly support CIL, looking at this at the current time (again see the results tables).

3.1.14 The results discussion within this section, and the reported very limited scope resulting from our findings, is based on current stage assumptions. In turn, these are based on the policy positions of FDC. As has been noted, key aspects influencing the cumulative impact on overall viability are seen from the requirements on affordable housing and, to a significantly lesser extent, sustainability. These matters are included within this scenario as fixed costs – applied fully alongside the CIL trial rates, because the impacts need to be taken into account together.

3.1.15 Government guidance states that CIL charging rates should not be set up to their potential limits (up to ‘the margins of viability’, or similar phrases). On reviewing the results and for the Council’s consideration of Preliminary Draft Charging Schedule (PDCS) CIL rate(s) proposals, if pursued, a number of key principles have been and will need to be considered as set out below (at 3.1.16 to 3.1.33).

Key point:
Marginal viability does not indicate support for clear CIL charging scope – viability should not be taken to the limits to support a Council’s selected CIL charging rate(s).

3.1.16 Costs will vary from these assumptions levels with site specifics and over time (particular build and related costs being a key example). We have allowed appropriately and have not kept these to what might be regarded minimum levels. However, some scope may be needed where costs are higher through such factors as site-specific abnormals and / or increasing national level carbon reduction agenda requirements longer term, scheme-specific design / materials, etc. When viewed overall, the various assumptions made represent market norms from our wide experience of strategic and site-specific viability assessment work and from established information sources; but tailored to the Fenland characteristics where more specific / local information pointed to particular assumptions or adjustments being used. Through applying our well established and tested approach the assessment is strategic in a way that is relevant to informing and supporting the development of the plan and to informing the associated approach to any updated CIL proposals by the Council.

3.1.17 Land owners' situations and requirements will vary. Expectations will need to be realistic and take account of policy and CIL requirements. As part of that, assessments will need to be made as to whether there are realistic prospects of securing significant value from some existing or alternative uses in the prevailing market. Nevertheless, land values could be outside the ranges that we indicate as benchmarks purely for the use of making our overview, including at higher levels.

Key point:

Land values will vary from scheme to scheme. As part of ensuring that viability at the margins is not relied upon, indicative land value comparisons are made (benchmarks set), but these are not intended to fix or even guide on land value when it comes to site specifics; they are considerations for the appropriate CIL setting context.

3.1.18 The wider economic backdrop remains mixed, although at the point of writing-up this study there are increasingly established signs of an improved level of housing market stability - local house prices have remained relatively flat and have recently shown signs of uplift. The more positive climate has been noted through bank and government figures, house prices indices and also through some performance reporting coming out from the house-building sector. In addition, a level of continued and emerging development activity and interest in promoting sites, including challenging sites, suggests that there is at least some level of underlying confidence in the local market. Nevertheless, the uncertainties and experiences of the last few years could still resurface to some extent and, viewed now, the local market pick-up in recent months still lags some way behind that seen in stronger market areas. These are unknowns, particularly with a general election approaching next year, a number of potential Government initiatives and changes effecting the planning and development environment and recent moves towards more stringent mortgage lending criteria, introduced as at May 2014. Such factors could be seen to have a dampening effect on the recent market pick-up. We cannot rely on any assumptions related to substantially increasing local house prices and some level of improved viability that may flow out of the wider market trend; the use of the residential values levels (VLs) sensitivities provides indications of the potential effect on outcomes of values changing. Looking at the range of values expected, from the information currently available, this is a part of the process that we use to inform the CIL viability scope put to the Council. The same principles have been considered and applied in respect of the commercial / non-residential scenarios.

3.1.19 Certainly a significant factor for the residential scenarios, as is always the case, is the affordable housing (AH) provision to be secured from market developments based on the policy targets.

3.1.20 HCA funding for affordable housing appears to be uncertain at best, and likely to continue being limited in application to non s.106 provision for the foreseeable future. Again, appropriate revenue assumptions have been made so that no affordable housing grant / other similar subsidy sources have been factored-in. The reported outcomes are not reliant on grant or any other external subsidy. Where available, added grant would improve the viability positions indicated, or could help to restore affordable housing proportions or tenure mixes to some extent where those would otherwise need to be below target requirements in order to maintain viability (e.g. in instances of higher site costs, significant development abnormals or other requirements).

3.1.21 Nevertheless, in the face of significant local affordable need in Fenland, the Council is duty bound to optimise AH provision. Whilst in general the results indicate the challenge associated with that part of the process, which is not unusual away from high value areas, we are of the opinion that significantly lower AH targets under any future review may not acknowledge the need and would potentially not support the Council's drive to optimise the provision across a range of widely varying site-specific circumstances. Lowered targets would not guarantee full AH delivery to those. The best achievable outcomes in our view likely to be reached through a continued approach to the operation of the targets – subject to negotiations where necessary and supported by comprehensive, rigorously tested viability justifications. In our experience, when market conditions are suitably favourable so that sites come forward, AH targets at levels such as this are not an outright deterrent to that process providing they are operated adaptably as needed. When underlying market conditions are sufficient to support a return to development activity, as they are currently, our experience is that the AH targets in themselves would not deter developers from pursuing opportunities and engaging in purchase, planning and delivery negotiations as fit the circumstances.

Key points:

Affordable housing (AH) and the need to continue the operation of a necessarily challenging target will remain a key theme for the Council. The assessment assumptions allow for it fully.

Any lowered AH target, for example in a trade-off with CIL, would still not guarantee its delivery and is not recommended given the needs levels against which it is the Council's duty to optimise AH provision.

It is inevitable, however, that AH requirements are amongst the key determinants for CIL setting and this applies in all locations; its inclusion has a significant impact even at low %s.

As a fixed charge, CIL needs to be considered very carefully in this context – to avoid adding unduly to the inevitable usual pressure on AH delivery.

These factors are not certainly not unique to Fenland.

3.1.22 Developer's profit level requirements (and in some cases related funders' stipulations) could well vary; including profits supporting workable schemes at a lower proportion of GDV (% GDV) or a similar proportion of development cost. Particularly in the case of commercial schemes, we could see lower profit level requirements than those we have assumed; potentially significantly lower than 20% GDV. However, we felt it appropriate given particularly depressed recent commercial market conditions overall to acknowledge that there may need to be some scope in this regard; or in respect of other commercial scheme costs / risks. This, again, is part of setting assumptions which fit with arriving at a balanced approach overall and do not mean that the consideration of CIL charging rates involves pushing to the margins of viability. It is important to avoid removing cost from collective assumptions so that scheme prospects become too dependent on those particular assumptions proving absolutely correct in practice. When it comes to site specifics, all individual appraisal inputs will vary and, therefore, how they interact will vary too.

3.1.23 This approach runs through the assumptions setting process. This is an important point, as the assumptions are made for the purpose of considering the CIL funding scope at the current time; and not for any wider purpose such as site-specific or affordable housing viability. For the study purpose we cannot consider for example the extent to which land and build costs etc. may be negotiated, savings may be identified against earlier stage assumptions as schemes are progressed built-out, profit margins may be flexed, contingencies reduced; or any gain on the values side. In balance with this, we have acknowledged also that rising costs tend to produce further pressure on overall viability if they not supported by positive values changes.

3.1.24 Any potential CIL charging rates need to be considered alongside other factors relevant to the locality and the development plan delivery; i.e. not based on viability only in terms of reaching an appropriate balance between that and the local infrastructure needs associated with supporting new development.

3.1.25 Amongst these other factors, the location and frequency of site and scheme types forming key parts of the local growth planning options is always key to a prospective CIL charging authorities considerations – i.e. considering where in the main development will be coming forward (in relation to the site types and values patterns explored for example). This is of particular relevance in Fenland, owing to the CIL viability capacity findings at the current time in Fenland – see below.

3.1.26 The types and frequency of schemes likely to be relevant under the next phase of the Local Plan delivery relevant to the lifespan of any first CIL charging schedule will influence the selection of the Council's approach to planning obligations for infrastructure; and may subsequently vary at any future review points when market, government policy or other influences together with review of the Council's monitoring information point to a refreshed check and view of the CIL scope being appropriate. In practice, the variation of schemes types could be very wide – including for commercial / non-residential development, where schemes could be seen in many shapes and sizes, widely varying uses and combinations of uses. However, it is necessary to consider the local relevance of those in terms of the plan delivery as a whole alongside their likely typical scope to support viability. Focus needs to be on the main relevant types, given that plan delivery and the Council's proposals for new housing and economic development based schemes across its administrative area as a whole are of greatest importance.

3.1.27 The modelling does not need to be sufficient to cover every potential scheme type; rather it is necessary to consider the more relevant types aligned to the expected Fenland District delivery.

3.1.28 Some individual schemes (residential and commercial) may not be able to support the collective requirements in any event; they may not be viable either prior to or following the imposition of any CIL (alongside other costs and requirements). Such viability outcomes are unlikely to be solely due to CIL charging, however. They are more likely to be associated with market conditions (arguably the biggest single factor) as impact a particular scheme, affordable housing, scheme design / construction / specification requirements (including but not limited to sustainable construction) and wider planning objectives. Usually, the collective costs impact on schemes will be relevant for consideration where issues arise, so that some level of prioritisation may be required – but, as noted above, bearing in mind that if implemented a CIL would be non-negotiable.

3.1.29 Therefore, whilst even a modest CIL charge may well not be solely responsible for any lack or insufficient level of viability (that may be inherent in the nature of the site, scheme timing or other matter), it certainly has the potential to further restrict the delivery scope where viability is limited. As a fixed "bite" from any overall optimal planning obligations funding scope, potentially it has a restricting effect on considering and delivering local / scheme priorities; other aspects may come under additional pressure subject to site-specifics.

3.1.30 Whilst this is accepted under the CIL principles, so that the inevitable non-viability of some individual schemes need not prejudice the plan delivery and the approach to CIL, this also means, however, that the viability of schemes that are critical to overall plan delivery needs to be assured. This is relevant to the extent that the approach to CIL as it affects such sites must not have too significant an effect on their viability so as to place their delivery at risk.

Key point: ***Where viability is often finely balanced, CIL charges could have an unhelpful influence on overall delivery.***

3.1.31 The latter points here tie in with the Government's latest CIL Guidance (February 2014 - as noted earlier) as they relate also to local authorities putting in place a CIL regime that will not only avoid prejudicing the plan delivery as a whole, but will contribute positively to the development of the area. In any event the Council will need to be able to show that it has struck an appropriate balance between infrastructure needs and viability / delivery considerations in any re-setting of its CIL charging rates.

3.1.32 Local authorities (the charging authorities, including FDC) have significant scope to consider exactly how they will assess what the right balance is given the particular characteristics of their area.

3.1.33 A common theme running through all of the results (residential and commercial) is that they are highly sensitive to varied appraisal inputs – particularly the values - and to the land value comparisons considered as potential benchmark ranges. A relatively small adjustment, particularly in some assumptions areas, can have a significant effect on the outcome. In the case of the Fenland outcomes, values at around or just beyond (higher than) the typical, most relevant part of the new-builds values range represent a particularly sensitive area. Effectively, as will be seen below (related to the outcomes at Appendix IIa), in the main values need to exceed those levels in order to create clear, consistent CIL charging scope from residential development of the type and in the locations most relevant to overall supply.

3.2 Residential - values and characteristics

3.2.1 The following sections first consider residential development and then commercial / non-residential.

3.2.2 Adjustments from asking price, as are usual to some extent, are often handled by way of bespoke incentives to particular purchasers, rather than by headline price adjustments. In whichever form, adjustments will vary by developer, by scheme and often by individual plot in practice. Whilst in more buoyant locations we are often now seeing no adjustment from asking price, in the present Fenland market circumstances we consider that some level of adjustment may still be appropriate. A 5% deduction from asking prices in most cases is likely to represent a reasonable if not cautious current approach to sales value estimates derived from the range of current new build pricing indications, given their level in the district. We have received soundings suggesting that generally properties are selling well. We are picking up continued signals of a sustained more stable and active market period locally.

3.2.3 Any clear values patterns that influence viability, and are critical to the relationship between viability and housing (or other development) supply in terms of ensuring overall plan delivery, are to be respected. However, it also needs to be understood that there are bound to be imperfections in defining any viability zones or similar (linked to any differential CIL charging rates). In practice values can change over very short distances (even within schemes, between different sides or ends of roads, with different aspects, particular surroundings, school catchments or other specific local influences). This, again, is not a Fenland specific issue; it is a typical finding and where CIL is implemented the charging rates setting cannot be expected to fully respond to the multitude of local variances that are usually seen.

3.2.4 These blurring factors are typically seen in the on several levels – from the site / street or local area specific level to the higher level characteristics varying to some extent between the main (market) towns, the 'growth' and other villages. However, in terms of general values patterns (as seen through overall market research), we found the following general picture relevant to considering viability. This was considered at base level for the scope for CIL in general, and then for more a more detailed picture in regard to any particular circumstances for rate or differential rates setting should the Council pursue CIL at the current time (high level points appropriate for CIL context):

- A relatively flat values picture, except for what are effectively "islands" of higher value seen in some but by no means all villages, and this is considered a limited characteristic in terms of CIL relevance. Whilst it could be stated that there is a general gradual increase in values moving southwards; notably higher values do not consistently apply to all settlements within any particular area, including in the south of the district. The research is variable, so that higher values were also indicated for some villages elsewhere in the district, including in the north.

- Overall, typically modest sales values are available to underpin viability across the district as a broad, key point – values relevant to overall plan delivery typically not exceeding VL5, and more frequently within the range VL2/3 to 5 overall.

- Some indications of marginally higher values were found for new builds at growth village locations such as Wimblington, Doddington and Manea but in our view, overall, again not meaningfully so in the CIL context of role within the overall delivery context. The same applies, with in our view further reduced CIL relevance, to some smaller villages such as Newton, Tydd St Giles and Guyhirn (just as examples). However, as above there is no clear pattern to this; it is considered a patchy effect that overall does not significantly alter the general tone of modest sales values available to support viability.

- In practice, a variety of values will continue to be seen within all settlements and from one locality or neighbourhood to another, or even at a street by street / site-specific level. However, we found a picture that fits broadly with the above findings bearing in mind that an overview has to be made;

- As is usually the case in our experience, it has to be acknowledged there is of course some blurring of this general picture but, again, in CIL terms it is not necessary or appropriate to create too complex a set-up that in any event would still be likely to have many imperfections when looking at the local neighbourhood level of detail.

Key points:
Values vary at local and site-specific levels, as is always the case, but the context appropriate to CIL setting is a higher-level view relevant to the overall Plan delivery. In Fenland's case, our view is that in the main the values across the most relevant delivery areas, viewed overall, are fairly consistent – they fall within a range that often produces marginal viability with wider obligations and costs taken into account, but typically offers limited additional viability scope or significant variation of that picture.

3.2.5 Further commentary and advice on these residential development themes and the potential CIL scope that arises from them is provided below.

3.3 Commercial / non-residential – values and characteristics

3.3.1 Similar consideration of the relevant values ranges and any clear patterns was also given in respect of the various commercial / non-residential development use types reviewed.

3.3.2 DSP considered that the main types of commercial / non-residential development, and particularly the viable types relevant to any potential CIL charging (i.e. any larger scale retail proposals only in the Fenland district context at the current time of review), would be likely to occur in a limited range of location types within the district and Local Plan context. Between these (assumed based on the market towns – March, Chatteris, Wisbech and Whittlesey) it would be difficult to distinguish between values and costs for these uses with any real clarity at this level of review. Such developments appear highly unlikely to occur elsewhere in the district. Beyond those, the other forms of retail development that DSP has discussed with the Council as potentially occurring are within the town or smaller settlement centres, together with rural provision as part of farm diversification or local community shops etc. In practice, it is most likely that any ongoing provision of smaller units for retail use will occur through proposals for the re-use of or extension to existing buildings that do not trigger significant CIL liabilities.

3.3.3 Should a CIL be pursued for Fenland at this stage, in terms of local relevance and seeking an appropriate balance in the local context, overall our research supports a simple approach to limited non-residential / commercial CIL charging whereby any differentiation should be as needed based on viability associated with varying development use; and not by location as well.

Key point:
Area based (zoned or similar) differentiation of any CIL charging is not considered appropriate for non-residential development in Fenland;
For commercial / other forms of development, only differentials by development use type are considered potentially relevant.

3.3.4 This view is reinforced by and linked to the nature of the commercial scenarios results which, as will be discussed below and can be seen at Appendix IIb, currently do not show CIL charging scope in respect of the key area of B Use Class (business) development, regardless of the specific assumptions in any event. Away from the potential for the Council to consider CIL charging for some forms of retail (larger formats – supermarkets and retail warehousing), the results clearly indicate there to be no CIL charging scope at the current time in any event and regardless of other decisions that may be made in respect of CIL and / or the use of s.106. This should be reviewed at the point of considering any future charging schedules or planning obligations strategies.

Key point:
Any commercial / non-residential CIL charging scope in Fenland is considered to be limited to larger format retail (i.e. to any supermarkets and potentially retail warehousing).

3.4 Overview of results – Residential scenarios – CIL charging scope

3.4.1 The following commentary is provided by reference to the Fenland area characteristics – for example as were noted in Chapter 1 and sections 3.1 to 3.3 above.

3.4.2 This is based on consideration of the most relevant VLs and scenarios from within the overall range studied and appraised; as best represent the Local Plan context and local circumstances. FDC will need to consider this information not in isolation, since the guidance acknowledges that a Council's approach need not exactly mirror the viability evidence, but alongside its site supply and monitoring information together with the recent and current delivery experience in the context of its Local Plan and the and operation of s.106 planning obligations agreements.

3.4.3 We look at these by reference to the review scenarios undertaken to date based on the information available. Necessarily this means also acknowledging that further more site-specific discussion and review of particular proposals, and especially with regard to the details of any further future strategic scale development scenarios, may well need to take place as part of the delivery process – in the normal way. The Council has work on-going on the further building and updating of its Infrastructure Development Plan (IDP) understanding and this will need to be factored into the rolling review type process that we envisage, usually carried out through joint working with the service providers and any larger site promoters.

3.4.4 The indications of potential occurrence by locality are simply that. In practice a range of scheme types could come forward in many localities, and particularly within or around the 4 main towns together with the growth villages. So the discussion is necessarily aligned to example scenarios considered representative of sample situations from the current and emerging overall site supply picture. The use of the VLs in conjunction with Figure 6 above (2.3.8) regarding Fenland's variety and area characteristics informs and supports the review of this.

3.4.5 It is not practical or necessary to cover all results variations, so here we provide an overview.

3.4.6 This process and the outcomes from its findings does not tie-down the Council to a particular CIL charging / s.106 led planning obligations approach, or details for any other further aspects of the Local Plan development at this stage. The Council will also consider other information.

3.4.7 The Government's recent consultation on a potential national affordable housing threshold of 10 dwellings, ended in May 2014, could be set to override any local approach to affordable housing (AH) provision / contributions sought from smaller developments than that. From our viability perspective, this could have an effect on the CIL charging scope aligned to the potential introduced in February 2014 for local authorities to set up differential CIL charging by scale of development. This could merit further review if the government proposals are confirmed. In this event, a minimum 10 threshold would move a number of Fenland developments out of the adopted AH policy scope (5 dwellings lower threshold) and therefore significantly boost their viability relative to the existing situation; and relative to the overall position on sites above that threshold. At the current time, CIL differentiation for the adopted AH policies is not considered a sufficiently significant and clear factor owing to the partial AH sliding scale type approach that is place. The potentially higher build and plot costs associated with some of the very smallest developments is also considered to have a counterbalancing effect to some degree, so that any CIL scope is not considered to be significantly greater beneath the 5 unit AH threshold at the current time. The range of scenario tests undertaken here, and any subsequent updating, could be used to inform subsequent further review of this if appropriate.

3.4.8 Therefore, for residential development we find that at this stage, any CIL charging scope and differentiation should be considered by reference to location/settlement (in response to varying values and viability) only.

3.4.9 Some of the smallest schemes will now be classified as self-builds, which will not attract CIL – those have been exempted from CIL charging under the 2014 Regulations changes. So far as we can see, and for general information only at this stage, any policy development to include the setting-aside of self-build plots within a larger market housing scheme (that also included a proportion of affordable homes) would allow the overall development to remain viable. From a high level review of the principle of acquiring and servicing land, facilitating the selling-on of plots to self-builders at likely profitable prices, it appears that the development viability prospects as appraised here would at least be maintained and may even be enhanced dependent on the pricing of the "ready-to-go" plots. This aspect could be considered further at a subsequent point if relevant to any approach developed by the Council.

3.4.10 Whilst within the CIL viability study assumptions approach the smallest scenario (sub-AH threshold) results are pulled down by the significantly higher build cost assumptions used, in our view those costs levels will not always be applicable. Where they are, schemes of more individual and potentially higher specification housing are likely to be supported by higher sales values characteristic of relevant sites and locations, and in order to make them work.

3.4.11 The emphasis for review of the CIL funding scope in the Fenland context should be on the scenarios of 5 or more dwellings where the AH policy takes effect and other blurring factors from smaller scheme build costs / potential self-builds are not complicating factors. In our experience by using this approach it is possible to better ensure that any CIL proposals are capable of responding to a wide range scenarios that trigger AH requirements and may be applicable up to the strategic development site level.

3.4.12 In general, the results tables at Appendices IIa can be used to consider which scenarios (VL and CIL rate combinations) if any provide potentially workable RLV and viability outcomes when considered in the context of the range of land value comparisons (viability tests / benchmark indications). Considered in this way, we can view the range of impacts from the CIL trial rates, including in circumstances where the overall combination of viability influences may be amongst the most and least challenging. The following paragraphs consider the results more specifically.

3.4.13 Table 1b, a 5 dwellings scenario with 20% AH allowance, indicates that sales values need to reach our VL4 (£1,875/sq. m) to provide any CIL scope on a greenfield land basis, but of more relevance need to reach VL5 plus to create clear looking scope assuming higher plot values potentially from a range of PDL sites.

3.4.14 Tables 1c to 1f are basically showing the same trend and similar outcomes. Overall, the strong indications are that the typical residential viability picture in Fenland falls at around or just beneath the cusp of viability, as it needs to be viewed in CIL terms (i.e. with the noted buffered type approach to the assumptions placing and results review).

3.4.15 Within this set, the 30 units retirement (sheltered type) housing apartments scenario expected to achieve values amongst the higher levels appraised in the context for the district - results at Appendix IIa table 1f - indicate if anything an improved viability capacity compared with the other results. However, from experience we know that such schemes will tend to occupy town centre PDL sites. They may also come forward with lower values, depending on timing and location etc. We did not see an established local market for these – we picked up no indications of this form of development currently being actively pursued. All in all, these are considered to have similar to slightly better viability prospects compared with other forms of residential development. Although, as in other cases, it must be acknowledged that land value expectations could in some scenarios rise beyond the comparison levels noted, they will need to reflect the Council's and other development requirements. Overall, it is considered that the same CIL rate(s), if pursued, should apply to this form of C3 market housing development as to all others.

3.4.16 The 30 units plus mixed development scenario results at tables 1g to 1i show a deterioration in outcomes relative to the houses only based developments. This is a typical finding (seen not just in Fenland) unless flatted development is supported by sufficiently high values to overcome the higher build costs (which in turn mean higher costs allowances, as factors of the build costs, in areas such as related fees and finance). Here so far as we can see in most locations there is not a well-established town centre or other flats market in any particular location to support higher values, although these would continue to form part of a mixed and more affordable market offer within larger new schemes or small scale more bespoke developments.

3.5 Wider Information

Sustainability - Carbon reduction sensitivity

3.5.1 Given the tone of base results assuming CfSH level 4 or equivalent standards across schemes, further sensitivity to added cost has not been undertaken and reported in full at this stage.

3.5.2 The costs involved with including enhanced carbon reduction measures have reduced very significantly in recent years, as evidenced by the source noted at 2.6.4. For wider context in reviewing the outcomes, it is worth noting that a deterioration of results with increasing requirements is not unusual by any means. There is a national level issue building around the viability impact of increasing carbon reduction standards; even though the approach to using currently known or estimated costs with current or projected trial level values may well not be reflecting how this will move with developing technologies and a greater market place for those. Having also noted the further uncertainties around the Government's proposed wholesale review of housing standards; only further time will allow us to see how these aspects develop and settle down to further inform the review of viability. Again, and particularly given the CIL scope findings here, this could be reviewed by FDC based on firmer information at a subsequent point relevant to CIL or to other aspects of viability - depending on how these aspects develop.

3.5.3 These same principles apply to other areas that increase scheme costs. At the current time, we can only advise that the Council should consider any aspect of its further Local Plan policy or related guidance development, and particularly any detail that may be considered in regard to going beyond the scope of building regulations or other equivalent requirements. FDC should monitor and keep under review such areas. This means review in the context of other collective requirements on development (affordable housing %s or make-up, just for example), as have been reflected in this study; not just single policy effects in isolation. The outcome of the Government's Housing Standards Review, as has been noted, may well be a key factor in determining how the detailed consideration of these matters progresses generally – not just in Fenland's case.

3.5.4 In the meantime, whilst the potential for significantly increased build costs relating to sustainability to influence the CIL charging rates setting process may be more a matter for future review, at the current stage this direction is one of a number of factors that, as above, means avoiding CIL rates set towards or at their maximum potential levels and therefore has the effect of contributing to the very limited CIL charging potential that we are finding in Fenland at the current time.

Key point:

Development costs will need to be considered again – alongside values - on future review of CIL viability, which would be informed by updated information and potentially by a clarified national housing standards context.

Potential future review in respect future strategic scale development

3.5.5 At this stage, the base results point strongly to insufficient viability to support any level of CIL in respect of larger / strategic scale development where greatly increased costs are typically relevant; associated with site and access improvements, strategic landscaping, drainage and utility services and specific infrastructure or mitigation requirements weigh heavily on overall viability. This is a typical finding in our recent experience of CIL viability and the values available to support overall viability in Fenland at this time suggest that at the current stage s.106 would represent a more adaptable and effective means for securing necessary planning obligations.

3.5.6 DSP anticipates that in any event it, including a current or future move to implement any form of CIL, it may well be necessary for FDC to consider a nil (£0/sq. m) or if not a nominal charging rate subject to the Council's ongoing review of the type and cost of site-specific infrastructure obligations / works necessary to support schemes of this type. Certainly, it appears that the CIL scope alongside likely s.106 requirements will be very limited in those circumstances given the high levels of costs that are likely to be relevant. As a general observation rather than firm finding at this stage, based on experience from other recent studies s.106 is more likely to provide the most flexible and appropriate delivery mechanism for the necessary infrastructure provision / mitigation associated with this form of development. Above all, this is simply a flag suggesting particular review should CIL be pursued either in a limited capacity now or at a later stage based on updated information.

Key points:
Based on the current view of the strength of Fenland values available to support the collective development costs, it is considered that strategic scale housing development with significant site-specific s.106 obligations or mitigation would not also readily support fixed CIL charging. The application of CIL to such developments alongside s.106 would most likely restrict the flexibility likely to be needed at delivery.
However, this should be reviewed in future.

Government consultations and reforms – Affordable housing thresholds

3.5.7 We reiterate that a key aspect of the CIL reforms brought in by the 2014 regulations and guidance is the change to allow differential rates to be set with reference to scale of development. DSP's view and experience is that this does not necessarily affect our recommendations on some areas (e.g. retail differentiation for any CIL set) - covered later in this chapter – but could have some significant effects on residential CIL charging depending on the Council's subsequent selection / operation of affordable housing policy targets if changes result from the Government's recent consultation on a potential national policy threshold of 10 dwellings. There is a key viability differential related to scale of development between sites with a requirement for affordable housing and sites without – e.g. a site of 10 with a requirement for affordable housing has different viability characteristics from a site of 9 units with no affordable housing requirement even though the site costs and values may be very similar. Again, we suggest that this is flagged for future potential review.

Key point:
Any national level introduction of minimum affordable housing thresholds / criteria could have a key influence on viability, and therefore on the points at which any CIL differentials may be relevant in future.

Other aspects associated with a residential CIL

3.5.8 If FDC decides to pursue any (limited) form of CIL mapping will need to be prepared by the Council to accompany the consultation stages in order to clearly show the extent of the proposed charging rate differentials that we consider will have to be set up.

3.5.9 The following paragraphs offer additional observations relating to our findings, CIL wider viability assessment and CIL Examination stages experience. In light of the findings for Fenland as explained by this assessment, these are offered as additional points for consideration – most likely following a future review stage and subsequent progression towards a CIL if appropriate at that point.

3.5.10 The CIL principles are such that, where it is implemented, ideally Charging Schedules should be as simple as possible; i.e. as simple as the main twin drivers of the viability overview and finding the right balance locally will permit. Whilst a more differential approach in theory has the potential to reflect more closely the changing values and viability scenarios moving around the district and even within the larger settlements, such variety always occurs and in fact the effects will be highly localised or even site and scheme specific in many cases. We reiterate this need to look at high level value and viability patterns, rather than seeking to reflect highly localised effects, is consistent with CIL principles.

3.5.11 For clarity, this assessment's findings on residential are considered to also apply to sheltered / retirement housing development types that could form part of the wide spectrum of market housing delivery. In our experience this form of market apartments based development is capable of supporting similar CIL viability outcomes and competing very effectively with general market / non-retirement housing developments and other uses for suitable sites. By sheltered / retirement housing we are referring to housing-led (rather than care provision based) schemes the generally high density apartment-based schemes providing retirement housing in self-contained dwellings, usually with some element of common space and warden support; but where no significant element of care is provided as the norm. As a characteristic in common with other mainstream residential development, these schemes generally trigger affordable housing requirements on a negotiated basis (which in our experience may often be provided by way of negotiated financial contributions given the potential development mix, management and service charge issues than might otherwise arise in some scenarios by seeking to integrate an affordable housing element). They are regarded as falling under Use Class C3 (dwelling houses). They are distinct in our view from care / nursing homes which would generally fall within Use Class C2 as have also been considered, through a different scenario type, for this study purpose. There are various forms of similar developments, so that the Council would need to consider the characteristics of forms such as "extra-care" in the event of implementing any limited current or (subject to review) future CIL. As above, the relevant Use Class and applicability of affordable housing requirements is likely to be a key indicator. In DSP's view, where the care provision is central to the development, so that it is not purely housing-led (where any visiting / part-time care would more likely be incidental), this may indicate characteristics closer to care / nursing homes development rather than market housing. The Council may need to consider the specific nature of development proposals and their fit within this range of types as schemes come forward and early stages discussions with planning applicants take place – in order to inform expectations. All affordable schemes would be nil-rated for CIL in any event, by virtue of the statutory exemption under the CIL regulations.

3.5.12 Again to reiterate, in many locations there may continue to be instances of lower value residential schemes (of a range of types) that struggle for viability in any event (i.e. are marginal prior to the consideration of CIL). It is important to stress that this could occur even without any CIL or similar (s.106) contribution / obligation, so it is not necessarily a result of such obligations. Wider scheme details, costs and obligations or abnormal costs can render schemes marginally viable or unviable before factoring-in CIL. As a common finding across our studies, no lower level set for CIL (i.e. even if at £0/sq. m) could ensure the deliverability of all these individual schemes on a guaranteed basis. In some cases, viability is inherently low or marginal, regardless of CIL or other specific cost implications. In this sense, CIL is unlikely to be solely responsible for poor or non-viability. These are not just local factors; we find them in much of our wider viability work. The same principles apply to commercial schemes too. The key test in terms of the CIL principles is that the rates selected do not put at undue risk the overall plan delivery; it always has to be accepted that some schemes may not work and that those do not in themselves necessarily prejudice the bigger picture on overall plan delivery.

3.5.13 Associated with this, and regardless of whether a CIL is pursued now, it will be necessary for the Council to track the detail of development delivery and planning obligations outcomes as part of its normal monitoring processes. This should be with a view to informing any potential / necessary review of its approach to planning obligations and / or CIL in perhaps 2 to 3 years' time or so, as other Government or local policy developments may take place; and / or potentially in response to market and costs movements, or indeed any other key viability influences over time. There is no fixed or universally recommended approach to the timing of review; this depends on the way the wider and more local market and other viability influences (e.g. national and local policy approaches) develop.

3.5.14 In reviewing the findings and putting forward the above, although not part of the viability testing, in the background we have also had some regard to the proportional cost of the potential (trial) CIL rates relative to scheme value (GDV). These aspects are considered further, for background information at this stage in Fenland's case - some guide information is provided towards the end of this chapter.

3.6 Values and other characteristics – Findings: Commercial

3.6.1 A similar review process was considered with respect to commercial and non-residential scenarios. Again, this involved a look first at whether or not there were any particular values patterns or distinct scenarios that might influence the considerations for setting any Fenland CIL; either in future or, potentially, in a limited way at this stage.

3.6.2 As with the residential oriented review, the starting point aim should be to seek to set up a simple approach to any charging regime as far as development viability, and the relationship of that to the Development Plan (Fenland Local Plan) relevance, permits.

3.6.3 In essence, after considering the forms of development most relevant and the research on values, we decided that the focus for differentiation should be on varying development use types as informed by the viability findings. Variance also by locality was considered not to be justified for commercial / non-residential uses. If a route including that were chosen, in our view the local CIL charging approach could well become unnecessarily complex. As with residential and the potential values variety over short distances, we found no clear justification for further complexity beyond considering development use in the local circumstances. Again as with residential, further and potentially unnecessary differentiation could not be expected make the approach more reflective of actual viability variations in any event.

3.6.4 In arriving at this, a number of aspects were considered alongside the values research (see Appendix III). This also helped to determine the scope of the commercial / non-residential scenarios modelling carried out overall.

3.6.5 **Here we summarise key high-level commercial / non-residential points and findings** (more detail then follows in later report sections):

- Retail: While DSP understands that at present the Local Plan context identifies no significant or specific requirements for retail, we completed the range of testing that usually forms the basis of our CIL studies and has provided robust evidence in all previous cases to date. This is because a range of scenarios could come forward and an equitable approach would be necessary to all developments that could support any CIL that is set up. The Local Plan thrust builds on the NPPF principles. It puts forward a '*strong town centre first message'* (within Policy LP6), particularly around supporting appropriate retail development that enhances the offer in Wisbech and March (the key Town Centres in the district's retail hierarchy) and similarly at Chatteris and Whittlesey (described as District Centres in a retail context) together with the smaller Local Centres.

- Therefore in practice, as reflected by the development strategy, any new retail development (as opposed to the usual "churn" of existing units) is most likely to occur on an ad-hoc basis. In the Fenland context, experience and our current work shows that other than for Supermarkets or similar developments, additional developments of smaller units within the main and smaller settlement centres within the district (or similar new schemes) would be likely to have poor to marginal viability based on current assumptions and on-going underlying general commercial market uncertainty outside the prime sectors and locations.

- From what we can see, the same would certainly apply to any new farm diversification based / rural areas retail provision, and would also be relevant at the current time to any smaller retail units provided within any strategic developments that become relevant to the considerations for any current stage CIL. The results show that the poor level of viability likely to be associated with most retail development points towards the need to nil rate development of new shops other than supermarkets / superstores and retail warehouses.

- Although larger format retail unit development (in the form of supermarkets in the local context), is not specifically envisaged in the local context at the present time and is unlikely to come forward in significant quantities based on recent and current experience, it could occur through market forces subject to the meeting of the Local Plan and national principles on impact assessments and suitability of location, etc. The only potential for development of this nature to occur was considered to be supermarket or similar development in or around the Town and District Centres, or potentially associated with new larger / strategic scale development associated with those. Based on discussions with Council officers even this seems a limited prospect in the short term and probable life of any early CIL charging schedule(s).

- In viability terms, should they come forward these forms of development would not support the level of CIL that we and other consultants have identified for such developments in some locations owing to the lower rental profiles here than we tend to see in more significant shopping locations. They are considered generally able to support CIL charging rates of approximately £50 to £100/sq. m, but recommended for placing within rather than at the top of that range – at not more than say £75/sq. m. This allows for stepping back from potential maximum theoretical CIL rates, which look to be around £150/sq. m at the current time based on the 5.5% yield test with 'M' values and the highest land value benchmark at £1m/ha used here (Table 2 at Appendix IIb). Overall, the indications are that at the very least this development use has the potential to effectively compete with all others for sites, including a range of residential proposals. Based on the assumptions used, the indications are however that retail warehousing type development in the context of current information on rents looks unable to support CIL based on clear evidence. The most positive end of our assumptions range needs to be supplied; and then still provides potentially marginal outcomes. However, we have not picked up on local demand for this form of development either at the current stage, and are not convinced that the local circumstances warrant potential over-complication or a sector based view of larger format retail this should a CIL be pursued. As per the preceding bullet point, it may be the case that certain or all forms of this are considered to have limited overall plan relevance and that, therefore, any individual ad hoc cases that prove insufficiently or non-viable are not prejudicial to the overall Plan delivery (the key CIL test). As with all other aspects, this could be reviewed and considered at any appropriate future point.

- As with residential and other development uses, if pursuing any limited CIL scope now or reviewing in future, the Council will therefore need to consider the viability findings alongside the recurring themes that we have noted – i.e. around the local relevance of development types; the likely frequency and nature of development.

- The appraisals run following extensive research show that other forms of retail development (aside from supermarket type development) would not reliably support CIL charging in the district, and the Council's selected approach probably needs above all to be responsive to any potential for smaller shops development, especially within the Main (Market) Town and other centres, so as not to add undue delivery risk to any marginal proposals (as they look likely to be at best in the short term).

- Business development (offices and industrial / warehousing – of all types): Experience from elsewhere along with firmed-up early stage findings for Fenland suggested again that viability outcomes here would not be sufficient to support CIL charging from this range of ('B' class) uses at the present time at least – see Appendix IIb. This is a finding in common with all of our viability studies to date. If robust assumptions are used, of the type necessary to underpin Local Plan and CIL viability studies, then viewed now (or short term future) those and the resulting viability outcomes would be unlikely to improve sufficiently to enable clear evidencing CIL charging scope, regardless of any area based variation or particular use type. We formed the view that any area based differentiation would not be relevant for these uses. Even in the better locations / scenarios, bearing in mind the Local Plan references to the transport network, our findings indicate that there is no clear CIL charging scope without adding further risk to schemes that at best appear to struggle for any real level of viability. This takes into account the level of uncertainty and risk inherent in such schemes at present, prior to considering fixed (non-negotiable) CIL levels being added to scheme costs.

- Hotel and care home development scenarios were considered, overall with a similar tone of findings from each of these. As noted at the Appendix I scenarios / assumptions summary, hotel appraisals were run to allow us to consider the sensitivity of outcomes to the relationship between their value and build costs, following the review of web based, BCIS and any other available information. With assumptions considered relevant at the current time, these scenarios were considered non-viable locally – as shown by the extensive 'negative RLV' results areas on the tables at Appendix IIb (individual negative – clearly non-viable - results based on the assumptions used have not been listed).

- We found that what we considered to be potentially over-optimistic assumptions had to be made in order to consistently provide development viability outcomes that support clear CIL charging scope for a range of such developments. Detailed information on development is particularly hard to come by for these sectors, but from our research it appears that the longer term business model associated with the trading / operational (revenue) side of the care homes business is often what underpins or largely underpins the progressing of schemes for this use; as opposed to the development activity.

3.6.6 In summary, now or in the foreseeable future the meaningful CIL charging potential from commercial / non-residential development in Fenland is likely to be restricted to considering any relevance of and scope around any ad-hoc larger format retail development that may occur; based on the supermarkets outcomes but subject to the points included above on plan relevance and, potentially, taking a wider larger format retail approach for any such schemes that do arise.

Key point:
Looking at viability now, any larger format retail developments (primarily supermarkets) that come forward are the only form of commercial development likely to support CIL charging in Fenland. The viability evidence points to all other commercial / non-residential development forms needing to be nil-rated in their entirety if a CIL is introduced at this time.

3.6.7 These aspects are all put forward with respect to the likely period of any first CIL charging schedule, and therefore involve a fairly short term view – they are subject to future review.

3.6.8 Consistent with most other viability studies that we have dealt with, our viability findings seek to provide wider information enabling the Council to consider various approaches – including on the characteristics of and related advice on differentiation for varying retail formats (as those provide different offers and effectively are different development uses). If not now, this may be relevant at a future stage as part of continuing to seek the right balance to the CIL approach for fenland. Further information is set out at 3.7 below. That may not be required at this stage, but is provided for completeness and is based on DSP's CIL viability experience to date. It may help to inform any subsequent charging schedule drafting.

3.6.9 As would be expected, the commercial / non-residential appraisal findings are wide-ranging when viewed overall. For this strategic overview rather than detailed valuation exercise we have essentially considered the interaction of rent and yield as presenting a view of sample ranges within which capitalised net rents (completed scheme sales values - GDVs) could fall. Then we considered the strength of the relationship between the GDV and the development costs – the crux of the CIL viability assessment.

3.6.10 In this way we have explored various combinations of assumptions (including capitalised rental levels) which in this case produce a mix of results from a wide range negative or marginal outcomes (meaning essentially no CIL charging scope) to a very limited selection of results that show meaningful CIL charging scope. To illustrate the trends that we see, the coloured tables at Appendix IIb use the same "colour-coding" type principles as the residential results tables (strongest green colouring indicating the best viability prospects through to red areas and other swathes of the results tables noted as 'Negative RLV' indicating non-viability based on the assumptions used). Once again, these provide a guide to the strength of the results and the trends across them at varying value levels and trial (potential) CIL charging rates, but must not be interpreted too strictly. The findings do not mean that in practice all such development will be consistently and firmly non-viable. Rather, the necessary approach to considering viability for a CIL demonstrates no CIL charging scope at the current time.

3.6.11 Another factor to which the commercial outcomes are greatly sensitive is the site coverage of a scheme, i.e. the amount of accommodation to be provided on a given site area; the equivalent of residential scheme density. This can affect results considerably, combined with the assumed land buy-in cost for the scheme. We saw the effect of these factors in looking at the residential scenarios too.

3.6.12 Factors such as build costs clearly have an impact as well but, for the given scheme scenarios, are not likely to vary to an extent that makes this a more significant single driver of results than the values influences (rents and yields) outlined above. In practice, it will be the interaction of actual appraisal inputs (rather than these high level assessment assumptions) that determines specific outcomes. As with actual schemes though, again it is the interaction of the various assumptions (their collective effect) which counts more than individual assumption levels in most cases. There are some commercial or non-residential use types where build costs, or build and other development costs, will not be met or will not be sufficiently exceeded by the completed values (GDVs) so as to promote viable development.

3.6.13 Having looked at varying forms of commercial / non-residential development for the viability review of CIL rates scope, the review process and findings also inform the Council's on-going work on the local plan and its delivery details. The study inevitably has to take a view of looking at all of this now, influenced by the recent recessionary conditions and on-going economic backdrop constraints in mind. In the Fenland context, it is considered that these cannot be fully projected out of the picture at the current time or, most likely, in the coming few years.

3.6.14 The Council will need to keep all of this under review, a repeated theme here, and in the meantime will also need to work-up up its delivery strategies for employment supporting development so as to maximise opportunities as the market is able to respond and work creatively over time.

3.6.15 We will now provide further detail on the assessment findings for the commercial development scenarios considered, bearing in mind that in practice scheme types and viability outcomes will be highly variable. In all cases, it is not necessary for the Council to link its approach to particular Use Classes – descriptions and added clarity to any CIL Charging Schedule may be better made by referring to locally relevant development types.

3.7 Potential CIL Charging Scope – Commercial / Non-Residential

As noted at 3.6.8 above, the information in this section (3.7) is provided for completeness and background at this stage; it provides further insight but given the overall nature of the findings we consider that it is more likely to inform any future, rather than current stage, CIL progression (subject to any future changes in the CIL regulations, etc.)

Retail scenarios (across Use Classes A1 – A5; i.e. also covering food and drink, financial services, etc.)

3.7.1 The 'small retail' unit appraisal results showed a very significantly weaker viability picture compared with the indications from the supermarket type retail scenarios (upper sections of Appendix IIb tables 2 to 6). This applied to all scenarios reviewed for the development type.

3.7.2 More generally speaking, whilst the retail scenarios overall showed amongst the best viability outcomes from the wide range seen for commercial, if the smaller shops scenarios are considered relevant to the plan delivery then this factor should be included in the consideration of and FDC CIL charging rates – either short term or, subject to review, potentially in the future. This would be reflected here currently through a nil charging rate (£0/sq. m) set for small format retail if CIL is to be pursued – applied to the whole of the Fenland District.

3.7.3 As a high level outcome this general viability distinction between larger (particularly supermarket) and smaller retail formats is consistent with most of our previous and wider work on CIL viability, as well as with the findings of other consultants engaged in similar work in many cases. Here there is also another form of variance, however, in that the retail warehousing scenarios indicate weaker outcomes that we see in many other cases.

3.7.4 The tone of results referred to here is shown by the range of red (and at best mixed green) shaded 'small retail' results areas at Appendix IIb tables 2 to 6 (representative of any new units at shopping parades / neighbourhood centres, individual units, farm shops, village or rural provision), compared with the supermarket scenario results and again particularly those at table 2 associated with the lowest yield tests considered most representative of that form of development.

3.7.5 In comparison, the best 'small retail' scenario outcomes at table 2 show only a switch to more positive RLV occurrences either with nil CIL and 'M' rents combined with the lowest yield test; or show theoretical CIL scope with 'H' rents again with the 5.5% yield. However, the lower yield scenarios are considered to be, at best, of limited relevance to most smaller shop development types likely to occur in Fenland.

3.7.6 DSP has experience of single and differential CIL charging rates approaches for retail development. We consider that any CIL charging rate for the larger retail types (supermarket and, subject to further consideration, potentially retail warehousing formats) could certainly be taken up to around £75/sq. m reflecting a rate set to recognise the viability overview but in any event bearing in mind the overall plan relevance scenario, should a CIL be set up.

3.7.7 To re-cap on the plan relevance of the various retail types, potentially the following factors are to be considered:

- The extent to which retail of any form is overall plan relevant. If certain or all forms are likely to be coming forward on an ad-hoc basis only (i.e. outside the plan policies scope) then potentially it may be considered that any non-viability of individual schemes is not critical under the CIL principles;

- Non plan relevance (or limited / uncertain relevance) would also suggest the prospect of a low level of increase in CIL receipts compared with either setting a nil CIL or not pursuing CIL at the current stage; or a low level of receipts impact compared with setting a higher, more viability impacting charging rate for certain development uses;

- In any event, as part of considering the impacts of any CIL proposals (both positive and negative), the Council may also wish to consider the relevance of any unintended consequences for other forms of development, such as smaller shops in the larger centres, shops provided through farm diversification or other smaller settlements / rural areas / tourism and visitor based provision. Overall, our understanding with regard to Fenland is that this range of retail uses is probably the key factor to which any approach to CIL and / or s.106 planning obligations needs to respond to support the more general Local Plan position on retail.

3.7.8 We also aim to provide wider information, having taken the exploration of this area of the study further (for any charging rates options based on differentiation by type) in the event that consideration of a differential rates approach is taken forward as a result of the Council's future work on this. As differentiation by retail use type appears an important consideration in Fenland if a CIL is pursued, then (to reinforce the points made previously) the viability evidence is such that consideration should be given to a significantly lower or, more appropriately, a £0/sq. m. charging rate for smaller shops developments at this time.

3.7.9 As we noted previously, the Government (DCLG) has recently introduced scope for charging authorities to be able to set differential CIL rates by reference to varying scale of development as well as varying development use (as has been discussed above in relation to residential development). Whilst DSP's experience is that differentiation has been possible for scale where that relates to varying development use (i.e. retail offer, site and unit type, site etc. associated with that), it appears possible that this element of the reforms could expand and cement the scope to consider differentiation on CIL charging rates for retail development. However, DSP's experience is such that a retail use does not necessarily change characteristics at any specific floor area point other than that determined by the Sunday Trading provisions.

3.7.10 Overall, as with the residential findings, the Council may well be able to consider options for any approach that it pursues towards CIL charging. So in order to provide the Council with additional information should it be needed in due course, whilst reviewing this potential differentiation further and appraising the smaller retail category, we explored the sensitivity of that scenario type to varied size (floor area). In the circumstances these outcomes are not included in detail in this report, but further information can be supplied to the Council by DSP if required. In any event, this may be as much about considering the differing retail offers and development types associated with those, and therefore general principles around CIL and differentiation, rather than the viability outcomes alone.

3.7.11 Since altering the assumed floor area to any point between say 200 and 500 sq. m would not trigger varying values or costs at this level of review, basically the reported values / costs relationship stays constant; so that we did not see altering viability prospects as we altered its specific floor area over that range but assumed development for the same use type (same type of retail offer). This means that the outcomes for this scenario (as for many others) are not dependent on the specific size of unit alone. The key factor differentiating these types of retail scenarios from the larger ones is the value / cost relationship related to the type of premises and the use of them; they are simply different scenarios where that relationship is not as positive as it is in respect of larger, generally out of town / edge of town stores. Specific floor area will not produce a different nature of use and value / cost relationship. The same applies on altering the high levels testing for floor area variations on supermarkets or similar; the use type does not switch at particular points so that selection of thresholds for the varying scale of development could be arbitrary.

3.7.12 To reiterate, in our view any differentiation is more about the distinct development use – i.e. the different retail offer that it creates and the particular site type that it requires, etc. The description of the use and its characteristics may therefore be more critical than relying simply on a floor area threshold or similar. The latter could also be set out to add clarity to the definition and therefore to the operation of a charging schedule in due course.

3.7.13 In case of assistance in this respect, DSP has worked with a number of authorities on the details of these aspects. As an example, the adopted Wycombe DC CIL Charging schedule (see: http://www.wycombe.gov.uk/council-services/planning-and-buildings/planning-policy/community-infrastructure-levy.aspx) included wording clarifications, in the form of footnotes to assist with the definitions of the chargeable retail use types, put forward by that Council and accepted by the Inspector at Examination, as follows:

[1] Superstores/supermarkets are shopping destinations in their own right where weekly food shopping needs are met and which can also include non-food floorspace as part of the overall mix of the unit.

[2] Retail warehouses are large stores specialising in the sale of household goods (such as carpets, furniture and electrical goods), DIY items and other ranges of goods, catering for mainly car-borne customers.

3.7.14 Only if differentiating between these smaller and larger retail formats (subject to the comments made regarding retail warehousing in Fenland), for example because of their plan relevance, we consider that creating a link with the size of sales floor space associated with the Sunday Trading provisions (3,000 sq. ft. / approx. 280 sq. m) may provide the most appropriate threshold as a secondary measure to the development use description that is the most relevant factor. This assumes the threshold being used for clarity and to further explain the nature of the development use that the viability and a charging rate differential is linked to if CIL is pursued.

3.7.15 It is considered that, where these schemes may come forward in this district (currently assumed to be on an ad hoc basis only), they could be seen in a variety of circumstances; but with none of those being fundamental to overall plan delivery in any event.

3.7.16 Overall for retail, therefore, we consider that these findings viewed alongside our wider work on this development use point to the Council considering for a CIL either now (or for bearing in mind subject to later review) point to:

- Differential rates for larger format retail – based on the supermarket viability outcomes in particular - (at not more than say £75/sq. m) and smaller format retail of all types – i.e. all other retail (put forward at £0/sq. m);

3.7.17 A single retail rate considered at this level (£75/sq. m), or even at a lower level within the residential CIL scope advice on potential rates, would be likely to place undue additional development risk on any smaller scale shops development, and so is unlikely to be appropriate here.

Key point:
If a CIL is to be introduced at the current time, the viability findings suggest that differential CIL charging for retail development types should be considered.

3.7.18 There are a range of retail related uses, such as motor sales units, wholesale type clubs / businesses, which may also be seen locally, although not regularly as new builds because these uses often occupy existing premises. Whilst it is not possible to cover all eventualities for ad hoc development, and that is not the intention of the CIL principles, we consider that it would be appropriate in viability terms to also link these to the retail approach that is selected based on the main themes of plan delivery, all as above.

3.7.19 Similarly, we assume that where relevant any new fast food outlets, petrol station shops, etc., provided for example as part of large retail developments, would be treated as part of the retail scheme.

3.7.20 Other uses under the umbrella of retail would be treated similarly. Individual units or extensions would be charged according to their size applied to the selected rate as per the regulations and standard charging calculation approach.

3.8 Other development use types – including community and other uses potentially relevant to the district – agriculture, leisure, visitor facilities, etc.

3.8.1 Following our extensive iterative review process, throughout this assessment we can see that once values fall to a certain level there is simply not enough development revenue to support the developments costs, even before CIL scope is considered (i.e. where adding CIL cost simply increases the nominal or negative numbers produced by the residual land value results – makes the RLVs, and therefore viability prospects, lower or moves them further into negative).

3.8.2 In such scenarios, a level of CIL charge or other similar degree of added cost in any form would not usually be the single cause of a lack of viability. Such scenarios are generally unviable in the sense we are studying here – as a starting point. This is because they have either a very low or no real commercial value and yet the development costs are often similar to equivalent types of commercial builds. We regularly see that even the build costs, and certainly the total costs, exceed levels that can be supported based on any usual view of development viability. These are often schemes that require financial support through some form of subsidy or through the particular business plans of the organisations promoting and using them.

3.8.3 As will be seen below, there are a wide range of potential development types which could come forward as new builds, but even collectively these are not likely to be significant in terms of "lost opportunity" as regards CIL funding scope. We consider that many of these uses would more frequently occupy existing / refurbished / adapted premises.

3.8.4 A clear case in point will be community uses which generally either generate very low or sub-market level income streams from various community groups and as a general rule require very significant levels of subsidy to support their development cost; in the main they are likely to be a long way from producing any meaningful CIL funding scope.

3.8.5 There are of course a range of other arguments in support of a distinct approach for such uses. For example, in themselves, such facilities are generally contributing to the wider availability of community infrastructure. They may even be the very types of facilities that the pooled CIL contributions will ultimately support to some degree. For all this, so far as we can see the guiding principle in considering the CIL regime as may be applied to these types of scenarios remains their viability as new build scenarios.

3.8.6 As a part of reviewing the viability prospects associated with a range of other uses, we compared their estimated typical values (or range of values) – with reference to values research from entries in the VOA's Rating List and with their likely build cost levels (base build costs before external works and fees) sourced from BCIS. As has been discussed above, where the relationship between these two key appraisal ingredients is not favourable (i.e. where costs exceed or are not sufficiently outweighed by values) then we can quickly see that we are not dealing with viable development scenarios. The lack of positive relationship is often such that, even with low land costs assumed, schemes will not be viable. Some of these types of new developments may in any event be promoted / owned by charitable organisations and thereby be exempt from CIL charging (as affordable housing is).

3.8.7 Figure 11 below provides examples of this review of the relationship between values and costs - in a range of these other scenarios. This is not an exhaustive list by any means, but it enables us to gain a clear picture of the extent of development types which (even if coming forward as new builds) would be unlikely to support CIL funding scope so as to sufficiently outweigh the added viability burden and further complication within any local CIL regime. These types of value / cost relationships are not unique to the Fenland at all. Very similar information is applicable in a wide range of locations in our experience, although the largely rural nature of this district increases the relevance of certain types of development uses and therefore the potential need to ensure that any essential delivery is not undermined.

Figure 11: Other development uses – example guide value / cost ranges and relationships

<table>
<tr><th>Example development use type</th><th>Indicative annual rental value (£/sq. m)</th><th>Indicative capital value (£/sq. m) before sale costs etc.</th><th>Base build cost indications – BCIS**</th><th>Viability prospects and Notes</th></tr>
<tr><td>Cafés</td><td>£35 - £585 per sq. m</td><td>£350 - £5850 per sq. m</td><td>Approx. £1,242 - £3,724</td><td>Highly variable outcomes. Insufficient viability to clearly and reliably outweigh the costs on a consistent basis</td></tr>
<tr><td>Community Centres</td><td>£20 - £95 per sq. m</td><td>£200 - £950 per sq. m</td><td>Approx. £1,348 - £5216</td><td>Clear lack of development viability - – subsidy needed</td></tr>
<tr><td>Day Nurseries</td><td>£35 - £65 per sq. m</td><td>£350 - £650 per sq. m</td><td>Approx. £1,476 - £2,033</td><td>Insufficient viability to clearly and reliably outweigh the costs</td></tr>
<tr><td>Equestrian Stables / Livery</td><td>Approx. £90 - £250 per unit</td><td></td><td>Approx. £649 - £1,143/sq. m</td><td>Insufficient evidence of viability to clearly and reliably outweigh the costs</td></tr>
<tr><td>Garages and Premises</td><td>£20 - £100 per sq. m</td><td>£200 - £1000 per sq. m</td><td>Approx. £553 - £1,068</td><td>Low grade industrial (B uses) - costs generally exceed values as per main appraisals findings</td></tr>
<tr><td>Halls
- Community Halls</td><td>£15 - £50 per sq. m</td><td>£150 - £500 per sq. m</td><td>Approx. £1,411 - £1,827 (General purpose Halls)</td><td>Clear lack of development viability – subsidy needed</td></tr>
<tr><td>Leisure Centre - Health and Fitness</td><td>£40 – 125 per sq. m</td><td>£533 @ 7.5% yield (upper-end)</td><td>Approx. £960 - £1,933</td><td>Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises</td></tr>
<tr><td rowspan="2">Leisure Centre Other - Bowling / Cinema</td><td colspan="2">No information available but say £115 -£125 per sq. m</td><td rowspan="2">Approx. £1,134 - £1,635</td><td rowspan="2">Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises</td></tr>
<tr><td colspan="2">approx. £1,600 @ 7.5% yield</td></tr>
</table>

Example development use type	Indicative annual rental value (£/sq. m)	Indicative capital value (£/sq. m) before sale costs etc.	Base build cost indications – BCIS**	Viability prospects and Notes
Museums	No comparable information available		Approx. £1,149 - £2,449	Likely clear lack of development viability – subsidy needed
Storage Depot and Premises – e.g. Agricultural	£35 - £45 per sq. m	£350 - £450 per sq. m	Approx. £415 - £701 (mixed storage types to purpose built warehouses)	Assumed (generally low grade) B type uses. Costs generally exceed values - no evidence in support of regular viability.
Surgeries	£40 - £150 per sq. m	£400 - £1500 per sq. m	Approx. £1,321 -£1,799 (Health Centres, clinics, group practice surgeries)	Insufficient viability to clearly and reliably outweigh the costs based on other than high-end looking value assumptions with lower end build costs.
Visitor Centres and similar	No comparable information available		Approx. £1,683 - £2,621	Likely clear lack of development viability – subsidy needed

(Above – Figure 11 continuation. Source; DSP 2014)

*£/sq. m rough guide prior to all cost allowance (based on assumed 10% yield for illustrative purposes - unless stated otherwise).
**Approximations excluding external works, fees, contingencies, sustainability additions etc.

3.8.8 With the exception, potentially, of any retail linked types such as mentioned at 3.7.18 to 3.7.20 above (should the Council consider those sufficiently relevant to the plan delivery and include those within any CIL charging), our recommendation is for the Council to consider a zero (£0/sq. m) rate in respect of a range of other uses such as the above (Figure 11) in the event of introducing a CIL. As in other cases, this could be reviewed in future - in response to monitoring information. Our over-riding view at the current time is that the frequency of these other new build scenarios (aside from supermarket or similar development, as above) that could reliably support meaningful CIL scope in Fenland is likely to be very limited.

3.8.9 As alternatives, and we understand that there is no guidance pointing either way, the Council could consider leaving such other development use proposals to "default" to a nominal charging rate if a CIL is pursued; or to a higher rate to capture contributions from a small number of developments, but with the risk that others could experience further delivery difficulties.

Key points:
In viability terms, and in common with most commercial types, all other development uses should be considered for nil-rating if a CIL is progressed. This is a current finding, but is also likely to remain relevant in the most part on future review.

3.9 Charge setting and review

3.9.1 To further inform the Council's potential current and future stage CIL and related considerations, again for completeness rather than necessarily for current rates proposals context, we have also considered the range of trial CIL rates that have been viability tested in terms of their proportion of (percentage of - %) completed development value (sales value or 'GDV').

3.9.2 The following figures (contained with the tables at Figures 12 and 13 below) do not relate to the viability testing (they are not viability tested outcomes or recommendations) beyond the fact that we have considered these straight calculations at a selection of the potential CIL (trial) rates that were tested for CIL viability scoping. The values assumptions (GDVs) used to calculate the following proportions are as assumed within the appraisals (see chapter 2 and Appendix I).

3.9.3 Percentage of GDV figures are only provided here for the residential and example commercial / non-residential uses (viability study scenarios) that are capable of supporting CIL charging in accordance with our findings (CIL rate as % of GDV figures for other development uses currently clearly providing no CIL supporting scope are not provided). See Figures 12 and 13 below.

3.9.4 In our experience, appropriate CIL rates are generally equivalent to a small proportion only of the GDV. In a range of other cases we have put forward for consideration rates not usually exceeding say 3-5% of GDV; but only as a rough guide and further background indicator of the potential suitability of the proposals. In the context of the Fenland value levels, we would suggest the lower end of this range acts as a more appropriate secondary review measure for any CIL rate(s) proposals.

This does not mean that a CIL charging rate that is equivalent to more than around 3% GDV as a potential maximum in a particular locality or development scenario is necessarily too high. This information is quite separate and is secondary to the viability testing outcomes that are crucial to our findings and recommendations. Experience simply shows that this can be a useful gauge purely as further context to potentially help inform judgements. To put this into context, house prices are currently increasing by a similar or greater level overall[15] than this 3-5% overall maximum suggested guide, and this general trend is expected to continue over the next few years[16]. While the costs side of development activity also needs to be considered and Fenland market trends may not fully reflect the wider picture, the indications are that rising house prices have the capacity to potentially outweigh or significantly mitigate the viability impact of the CIL charges. This is certainly a key point for FDC to bear in mind and review periodically assuming that CIL or a similar mechanism for collecting infrastructure contributions remains in place as an option at a national policy level. It links back to the points on the role of monitoring.

Figure 12: Trial CIL Charging Rates as a Percentage of GDV – Residential

Scheme Type	CIL Rate (£/sq. m)	Value Level								
		VL1	**VL2**	**VL3**	**VL4**	**VL5**	**VL6**	**VL7**	**VL8**	**VL9**
Capital Value (GDV - £/sq. m)		**£1,500**	**£1,625**	**£1,750**	**£1,875**	**£2,000**	**£2,125**	**£2,250**	**£2,500**	**£2,750**
Residential	**£10**	0.67%	0.62%	0.57%	0.53%	0.50%	0.47%	0.44%	0.40%	0.36%
	£20	1.33%	1.23%	1.14%	1.07%	1.00%	0.94%	0.89%	0.80%	0.73%
	£30	2.00%	1.85%	1.71%	1.60%	1.50%	1.41%	1.33%	1.20%	1.09%
	£40	2.67%	2.46%	2.29%	2.13%	2.00%	1.88%	1.78%	1.60%	1.45%
	£50	3.33%	3.08%	2.86%	2.67%	2.50%	2.35%	2.22%	2.00%	1.82%
	£60	4.00%	3.69%	3.43%	3.20%	3.00%	2.82%	2.67%	2.40%	2.18%
	£70	4.67%	4.31%	4.00%	3.73%	3.50%	3.29%	3.11%	2.80%	2.55%
	£80	5.33%	4.92%	4.57%	4.27%	4.00%	3.76%	3.56%	3.20%	2.91%
	£90	6.00%	5.54%	5.14%	4.80%	4.50%	4.24%	4.00%	3.60%	3.27%
	£100	6.67%	6.15%	5.71%	5.33%	5.00%	4.71%	4.44%	4.00%	3.64%
	£110	7.33%	6.77%	6.29%	5.87%	5.50%	5.18%	4.89%	4.40%	4.00%
	£120	8.00%	7.38%	6.86%	6.40%	6.00%	5.65%	5.33%	4.80%	4.36%
	£130	8.67%	8.00%	7.43%	6.93%	6.50%	6.12%	5.78%	5.20%	4.73%
	£140	9.33%	8.62%	8.00%	7.47%	7.00%	6.59%	6.22%	5.60%	5.09%
	£150	10.00%	9.23%	8.57%	8.00%	7.50%	7.06%	6.67%	6.00%	5.45%

(Source: DSP 2014)

15 Office for National Statistics (ONS) – House Price Index (and confirmed by a wide range of other sources)
16 Savills Residential Property Focus for Q4 2013 for example suggested up to around 25% growth in house prices to 2018/19.

Figure 13: CIL Charging Rates as a Percentage of GDV – Commercial (retail development uses for which potential CIL charging is discussed in the report)

Scheme Type	CIL Rate (£/sq. m)	5.5% Yield			6% Yield			6.5% Yield		
		L	M	H	L	M	H	L	M	H
Capital Value (GDV - £/sq. m)		**£2,727**	**£3,636**	**£4,545**	**£2,499**	**£3,332**	**£4,165**	**£2,307**	**£3,076**	**£3,845**
Supermarket	**£10**	0.37%	0.28%	0.22%	0.40%	0.30%	0.24%	0.43%	0.33%	0.26%
	£20	0.73%	0.55%	0.44%	0.80%	0.60%	0.48%	0.87%	0.65%	0.52%
	£30	1.10%	0.83%	0.66%	1.20%	0.90%	0.72%	1.30%	0.98%	0.78%
	£40	1.47%	1.10%	0.88%	1.60%	1.20%	0.96%	1.73%	1.30%	1.04%
	£50	1.83%	1.38%	1.10%	2.00%	1.50%	1.20%	2.17%	1.63%	1.30%
	£60	2.20%	1.65%	1.32%	2.40%	1.80%	1.44%	2.60%	1.95%	1.56%
	£70	2.57%	1.93%	1.54%	2.80%	2.10%	1.68%	3.03%	2.28%	1.82%
	£80	2.93%	2.20%	1.76%	3.20%	2.40%	1.92%	3.47%	2.60%	2.08%
	£90	3.30%	2.48%	1.98%	3.60%	2.70%	2.16%	3.90%	2.93%	2.34%
	£100	3.67%	2.75%	2.20%	4.00%	3.00%	2.40%	4.33%	3.25%	2.60%
	£110	4.03%	3.03%	2.42%	4.40%	3.30%	2.64%	4.77%	3.58%	2.86%
	£120	4.40%	3.30%	2.64%	4.80%	3.60%	2.88%	5.20%	3.90%	3.12%
	£130	4.77%	3.58%	2.86%	5.20%	3.90%	3.12%	5.64%	4.23%	3.38%
	£140	5.13%	3.85%	3.08%	5.60%	4.20%	3.36%	6.07%	4.55%	3.64%
	£150	5.50%	4.13%	3.30%	6.00%	4.50%	3.60%	6.50%	4.88%	3.90%
Capital Value (GDV - £/sq. m)		**£1,363**	**£1,818**	**£2,272**	**£1,249**	**£1,666**	**£2,082**	**£1,153**	**£1,538**	**£1,922**
Retail Warehousing	**£10**	0.73%	0.55%	0.44%	0.80%	0.60%	0.48%	0.87%	0.65%	0.52%
	£20	1.47%	1.10%	0.88%	1.60%	1.20%	0.96%	1.73%	1.30%	1.04%
	£30	2.20%	1.65%	1.32%	2.40%	1.80%	1.44%	2.60%	1.95%	1.56%
	£40	2.93%	2.20%	1.76%	3.20%	2.40%	1.92%	3.47%	2.60%	2.08%
	£50	3.67%	2.75%	2.20%	4.00%	3.00%	2.40%	4.34%	3.25%	2.60%
	£60	4.40%	3.30%	2.64%	4.80%	3.60%	2.88%	5.20%	3.90%	3.12%
	£70	5.14%	3.85%	3.08%	5.60%	4.20%	3.36%	6.07%	4.55%	3.64%
	£80	5.87%	4.40%	3.52%	6.41%	4.80%	3.84%	6.94%	5.20%	4.16%
	£90	6.60%	4.95%	3.96%	7.21%	5.40%	4.32%	7.81%	5.85%	4.68%
	£100	7.34%	5.50%	4.40%	8.01%	6.00%	4.80%	8.67%	6.50%	5.20%
	£110	8.07%	6.05%	4.84%	8.81%	6.60%	5.28%	9.54%	7.15%	5.72%
	£120	8.80%	6.60%	5.28%	9.61%	7.20%	5.76%	10.41%	7.80%	6.24%
	£130	9.54%	7.15%	5.72%	10.41%	7.80%	6.24%	11.27%	8.45%	6.76%
	£140	10.27%	7.70%	6.16%	11.21%	8.40%	6.72%	12.14%	9.10%	7.28%
	£150	11.01%	8.25%	6.60%	12.01%	9.00%	7.20%	13.01%	9.75%	7.80%

(Source: DSP 2014)

3.9.5 The Council may wish to use the type of information above to inform its consideration of the current limited CIL viability scoping outcomes and /or at a future point of review. In our experience this has been useful in other cases as a form of secondary check on the CIL proposals.

3.9.6 As an example a residential CIL charge of say £50/sq. m applicable to the typical values considered relevant to most new residential development in Fenland (in terms of overall Local Plan relevance) would be equivalent to approximately 2.5% to 3% GDV based on VLs 2 to 5 (table at Figure 12 above - £50/sq. m CIL row). Based on the key measure of the viability test results, this is not considered supportable at present as a key theme in the district, but it gives a feel for how such a CIL rate looks against this secondary check if that were achievable on future review, purely as an illustrative example.

3.9.7 Applying similar potential checking / thinking to the much less frequent higher values, suggests that if a limited and directed type approach to CIL based on higher value "islands" (selected villages) then in any event the CIL scope viewed now or in the short term is likely to be limited to around £70-80 sq. m maximum based on the need for it to be workable across a range of village sites. On this example if we then refer back to the viability results we can see that for a 10 modest houses scenario including affordable housing, potentially values at VL7 plus are needed to support the higher land value test £1m/ha together with a CIL rate of not more than say £70-80/sq. m. A linear effect is not necessarily expected on review of this additional information; again it simply acts a further and informal "health-check" when reviewing any CIL proposals as noted.

3.9.8 At say £75/sq. m, the potential CIL charging scope for supermarket type development is seen at Figure 13 above to represent around 2.0% GDV based on the lower yield 'M' rent test, but of course varies with the placing of those assumptions and is sensitive to them. With the 0.5% increasing yield test steps the CIL expressed as %GDV is seen to increase gradually, and it increases quite significantly with the lower rental test assumptions. For the retail warehousing development use scenario, the equivalent secondary check comparison shows that at a similar CIL charging rate the %GDV would be approximately double that for the supermarket scenario. This needs to be considered should a CIL be pursued, as was noted within section 3.7 above.

3.9.9 In general - for further information – in our experience looking at the trial / potential CIL charging rates as a percentage of cost (meaning development cost) provides a less clear, less consistent secondary guide. This is because of the variation in costs, as between these examples (again the retail warehousing scenario would show a considerably higher % check on this basis), and also because the scope of the costs being used within the comparison (i.e. what is being included within 'cost' or 'development cost') needs to be made very clear.

3.9.10 It is not possible to say for certain at what point a review of the CIL funding (viability) scope should be undertaken. The Council should monitor the Fenland housing market by considering the types of information sources used in this assessment process, including house price tracking, local soundings, etc. (see Appendix III) alongside its delivery experiences.

3.9.11 There is no fixed period for or approach to the monitoring and review of these findings. The viability outcomes are determined by how the development values and costs inputs come together, rather than necessarily by what happens to just one input over time. However, we suggest in general terms that the following examples could be considered as positive indicators / viability ingredients that may point towards review being appropriate (likely negative viability influences are not considered here, given the current base point for viability in terms of CIL):

- Rising market – local house price growth continues / picks-up pace over a sustained period. We can provide no fixed review trigger indication because rising development costs counter-act rising values to some degree. However it appears that more than a 10% local house price increase may be needed to signal a review that may produce more positive CIL scope findings. Prices may need to pick up by say 15%+ from current typical levels to drive significantly different outcomes overall, but of course with the overall outcomes highly dependent on the costs picture too. As a current view indication, a 15% increase to the VL4 to 5 values (£1,875 to £2,000/sq. m area of the range) would move those results into significantly more positive positions regarding CIL; although the same level of increase may not be quite enough in respect of the lower value (VL2 to 3) scenarios that we currently see, perhaps apart from on some greenfield and other lower value sites. This is necessarily highly indicative. In practice the assumptions set (i.e. including the costs side) would need to be revisited at the review point, so that the collective view of it could again be considered on an update basis. However, it is intended to give some feel for the likely swing that, as currently appears, may be needed to create clearer and more frequent CIL scope; just for potential review context combined with the monitoring view on other factors such as government policy and any changes in local obligations, etc.

- Revised national approach to affordable housing thresholds (smaller sites thresholds removed), but also dependent on the local view of the overall plan relevance of various development types and sizes. Similarly, other Government reforms may create revised requirements or circumstances relevant to viability.

- Significant commercial property markets improvements – the best indicator may be projects progressing locally.

3.9.12 Whilst a particular point in time or period will not in itself determine that review will mean different outcomes overall, in our experience our clients are looking at the life of a typical first CIL charging schedule being generally in the order of say 2 to a maximum of perhaps 5 years. So in many areas with a CIL in place, that indicates broadly the timescale over which review may be considered. Therefore, to give some indication on this, a potential review of the Fenland circumstances in around 3 years' time is probably a reasonable approach to have in mind.

3.9.13 In our view it might well be possible to review the planning obligations / CIL charging scope on a relatively "light touch" type basis, initially at least; to first explore any change in key indicators such as development values and build costs and the likely effect of those relative to the picture seen now.

3.10 Summary – Fenland CIL Charging Scope – Current overview

3.10.1 It has been necessary for us to acknowledge the various residential viability sensitivities, which are likely to mean that actual outcomes move around given the many variables. We have acknowledged the affordable housing and wider sustainable construction agenda impacts for example.

3.10.2 The Council will need to continue with an adaptable approach to delivery; as is currently applied in respect of the affordable housing policy targets operation for example.

3.10.3 In our view the increased signs of activity and engagement to date between the Council, developers and its various other partners in respect of a range of proposals begins to provide some more positive signs of the delivery scope in Fenland. This should be a key indicator of the potential and a vital continued aspect of the planning and delivery processes across the range of development types relevant to the Local Plan.

3.10.4 It is also important to view the current stage CIL viability scoping outcomes in the context of the appropriate review, assumptions placing and judgements process that is necessary to robustly and inform and support a CIL charging schedule under the regulations, formal and other guidance. This means that the viability findings here are not expected to be representative of the full range of individual site discussions and outcomes. This is because, at the delivery level, an alternative view may be appropriate or sufficient as part of a particular viability scenario.

3.10.5 Given the nature of this assessment, the mixed results seen from it and the signs of market pick-up, we consider that the findings show the potential for FDC to continue striving for affordable housing based on the necessarily challenging targets - given the needs. Similarly, s.106 provision for other matters has been made by way of assumptions included alongside the CIL trial rates testing carried out.

3.10.6 Nevertheless, a balanced and careful overall assessment is required and links directly to the Council needing to have in place the most appropriate tools in order to support the Local Plan strategies and delivery. At the current time, we consider that the typical viability outcomes, those likely to be relevant in the short term at least, fall within a sensitive area of the overall range.

Key points:

Most residential scenarios of key relevance to overall plan delivery are found to around the "cusp" of viability (schemes moving from non-viability to marginal and improved viability) by the time the collective costs (including the developer's profit), affordable housing and other obligations are considered. This is the case prior to CIL charging being added as a fixed cost; the fixed cost nature of CIL being a key factor here.

3.10.7 Looking at the residential values typically available to support the collective development costs in Fenland, and so at the strength of the relationship between these, there are signs that recent new-builds are in the main selling well. They are it appears capable of achieving values that are in excess of, or sometimes significantly in excess of, the overall / prevailing re-sale property price levels where they provide a different and attractive offer in a particular location. However, the available new-builds information is currently relatively limited and we consider that a later stage review of this as the market moves on may well provide a clearer basis from which to reconsider the much broader information set that shows a lower overall tone of values for the Fenland settlements; especially those most relevant to the plan delivery as a whole. The new-builds information provides an emerging more positive picture, we feel, but in the context of fixed CIL charging we would suggest that this is kept under review and does not at the current time sufficiently substantiate clear and meaningful CIL charging scope. Viewed at the current time, this is an area where significant development is proposed at locations that support the lower to mid-range values seen; not usually the stronger values at the mid to upper end of the range for the district.

Key point:

Whilst there is emerging evidence to show that new-build housing values can significantly exceed the resale equivalents locally, the typical values most relevant to overall delivery do not support clear CIL charging scope at present.

3.10.8 Whilst there are potential exceptions to this present stage residential overview, we consider that these would be very limited. Any approach to reliably implement a CIL for residential development at the current time would in our view need to be aligned to specific higher value smaller settlements (selected villages – including some growth and smaller villages) and would be limited to a charging rate in the range say

£40 to £80/sq. m; not more. From the Local Plan context and related information, there can be no certainty around the exact scale of development that will be supported by the overall collection of smaller sites at such settlements. However, DSP's information review suggested that this might be no more than around 10% of the overall dwelling numbers over the Plan period. This would mean a very small number, in the overall context, over the next few years relevant to the life of any first charging schedule at least – i.e. were CIL progressed at this point. We do not consider that the improved viability outcomes apply universally across any particular swathe or area of the district; more of a patchy / spotty mapping effect is envisaged should such a basis be considered for CIL while the viability findings are such as they are.

Key points:

For residential development the viability findings indicate overall that alongside the other development costs, including affordable housing, any current Fenland CIL charging scope applies only to selected higher value smaller settlements. This would create a very limited CIL coverage and receipts scope, which, from what we can see, would not be well-related to the planned development when considered in overall terms.

3.10.9 Consequently, it will also be necessary for FDC to consider the wider implications of pursuing a residential CIL at this point. In terms of the above context and likely level of receipts, these include the consultation, submission, examination, implementation and management costs; and especially should a CIL mean new management processes in addition to those that will still need to be operated in any event to govern the operation of s.106.

3.10.10 As noted previously, there is a possibility that Government review will result in an adjustment to small sites affordable housing thresholds. In due course, and potentially allied to the limited scope of the better viability findings related to the higher value areas / smaller settlements, this could mean that any review may be able to factor this in. The CIL regulations scope now available for considering differentiation by scale of development could take on increased relevance locally, subject to further review.

3.10.11 Turning back to the findings on CIL scoping for commercial / non-residential residential development at the current time in Fenland, the findings are clear that supermarket or similar development, should there be any, supports the only firm, reliable justification for some level of CIL charge. We have considered and discussed other forms of development, noting the linked commentary on retail warehousing for example. Essentially, and viewed alongside the Local Plan delivery context, we consider that there is likely to be very limited justification for seeking to put in place such a narrowly impacting CIL at the current time. Of course, as with residential and noted above, this may be reviewed in future.

Key points:

The limited commercial development related CIL charging scope is not unusual in our recent and current experience. However, the absence of planned commercial development of the type that would attract CIL payments, combined with the very limited residential charging scope, points to the likelihood of CIL not being a key tool complimentary to the overall plan delivery in Fenland at the current time. From the current viability view, it appears that a CIL implemented now is unlikely to make a sufficiently positive contribution to the development of the area bearing in mind its set-up costs. The Council should consider this further and keep it under review.

3.10.12 S.106 remains available as an important tool, and will be the focus for Councils that do not progress a CIL, or until they progress with it. In FDC's case, we consider that the ongoing use and honing of the approach to s.106 is at the current time most likely to represent a more flexible and better infrastructure delivery mechanism.

3.10.13 Particularly in respect of commercial / employment development creation, some challenges must be acknowledged in most local authority areas. In addition to seeking to ensure that any CIL approach does not further impede investment, the Council could consider the following types of areas and initiatives (outside the core scope of this report, but put forward as practical indications). Our review of the Local Plan suggests that the Council is thinking along these lines:

- Consideration of market cycles – plan delivery is usually about longer term growth as well as short term promotion and management of growth opportunities that will contribute to the bigger picture;

- A choice of sites and opportunities – working with the development industry to facilitate appropriate development and employment / economic improvement generating activity when the timing and market conditions are right;

- Consideration of how location is likely to influence market attractiveness and therefore the values available to support development viability. Alignment of growth planning with existing transport links and infrastructure, together with planned improvements to those. Considering higher value locations for particular development use types;

- Specific sites / locations and opportunities – for example in relation to the plan proposals and what each are most suitable for;

- Mixed-use development with potential for cross-subsidy for example from residential / retail to help support the viability of employment (business) development;

- Scenarios for particular / specialist uses that are often non-viable as developments but are business-plan / activity led;

- As with residential development, consideration of the planning obligations packages again including their timing as well as their extent.

- A likely acceptance that business development overall is unlikely to be a contributor to general community infrastructure provision in the short-term at least. However, s.106 may still be used as a mechanism where appropriate.

3.10.14 The carrying out of this assessment and review of its findings is a fully independent exercise by DSP on behalf of FDC, undertaken from the perspective of a fresh look at the local characteristics and market. This is informed and supported also through our wider CIL related and other significant viability assessment experience. As part of the assumptions building and information overview that informed the review of results however, an important part of the process is the seeking of information / examples and soundings from locally involved parties – for example property agents and developer interests, where possible. The response rate to this process is usually limited, for a range of reasons including the sensitivities / confidentialities that are involved. In this case some useful soundings were provided to DSP. On our review of the locally sourced information overall, this felt broadly familiar in terms of our own views and experience formed from the assessment. Overall, the soundings related again to the mixed viability outcomes; the currently still relatively marginal nature of many schemes in terms of the prospects for adding fixed CIL costs. As we have come to expect through long experience of the nature of these processes and judgements and the variety of information and opinions, we were not in agreement with the full detail of the various soundings received. Nevertheless this proved a useful exercise, with some common views and information, and this did add to our triangulation type exercise in terms of testing our own views and assumptions etc. Overall, in general what we picked-up on could be related in some way to our work.

3.10.15 Put together, this current stage overview on CIL scoping in respect of residential and commercial development in Fenland points in our view to continuing with s.106 or equivalent as the key and more flexible planning obligations mechanism at least for the time being. This position, if settled following FDC consideration, could be noted as subject to future review. With that in mind, mixed and improving market signs as well as potential national level changes that could affect viability have been noted.

3.10.16 As an alternative or in any event as a part of informing its next decisions, but at this stage not promoted by DSP as a suggested key option, FDC could give consideration to what in our opinion would need to be a very narrowly scoped CIL at the current time. From a viability perspective we suggest that currently this would need very careful consideration and its scope would need to be limited to:

- Residential general position – district wide “wash-over” type rate at £0/sq. m;

- Residential exceptions type position – higher value “islands” type approach limited in scope, with details subject to further review, but applicable only to selected villages if a CIL were to be pursued at this stage. CIL rate applicable to these limited circumstances expected to be no more than £40 to £80/sq. m;

- Supermarket development (and potentially other larger format retail) at no more than say £75/sq. m and, as with other uses, subject to plan relevance considerations;

- All other development uses; recommended at £0/sq. m in any event

Key point:

3.10.16 sets out the limited scope, in viability terms, of any current approach to a local CIL in the event that the Council decides to pursue a narrowly impacting charging schedule. Figure 14 below provides a summary as per the findings of DSP's assessments and scoping.

3.10.17 Therefore from the viability findings we summarise the following for consideration by Fenland District Council in respect of current stage CIL scoping (see Figure 14 below):

Figure 14: Key considerations and Recommendations Summary – CIL scoping findings

Indicative typical / values (VL/ £/sq. m)	Example Location / comments		CIL rate (£/sq. m) scope	Comments – e.g. any alternative / option?
VLs 2-5 £1,625 – 2,000/sq. m	**RESIDENTIAL –** **District wide, based on majority of district and expected development supply.**	Finely balanced viability for many typical scenarios and also anticipated for larger / strategic sites given specific costs likely to be applicable to those. Suggest at present it may be better not to add fixed cost via CIL in terms of both overall delivery and site to site practicalities.	**£nil - £0/sq. m at the current time -alongside other costs, affordable housing and other obligations** (viewed as those need to be for appropriate CIL rate(s) setting)**.**	Nil CIL is DSP's recommendation at this stage. An alternative, should the Council wish to consider it, may be a very narrow CIL set-up with limited application to higher value villages at no more than £40-80/sq. m. However, DSP advises that it may be better to this consider further only once more is known on national AH thresholds; or in any event upon more general future review of CIL scoping.
Principally 'M' values with lower yields	**RETAIL – Supermarket type only** **District-wide** (although only expected to be potentially applicable at or around the 4 Market Towns)	One of the limited more positive areas of the current stage viability findings.	**£75/sq. m**	Consider treatment of retail warehousing if pursued. Note - at the current time, there is considered to be no alternative to a £0/sq. m all smaller shops rate.
Wide range considered	**ALL OTHER DEVELOPMENT USES** **District-wide**	No clear CIL scope applicable to all other commercial / non-residential uses, explored through full appraisals (see Appendix IIb) and strength of value/cost relationship (see Figure 11).	**£nil - £0/sq. m**	Considered to be no workable alternative in CIL terms. (Position subject to review in future, as with all aspects).

3.11 Continuing use of S.106 – without or prior to CIL being in place

Additional information

3.11.1 Councils (including Fenland District) have been operating a system of pooled contributions for certain types of s.106 contributions, including for sustainable transport / accessibility and open space. When a council's CIL charging schedule comes into force or by 6 April 2015, whichever the sooner, the pooling of s.106 contributions is restricted to contributions from no more than 5 developments for each infrastructure project or type. In fact, developments dating back to 2010 may already be reducing or have taken up this restricted pooling scope.

3.11.2 Where implemented, CIL would therefore become the main source of developer contributions towards infrastructure beyond the immediate needs of the development site. However, where put in place a CIL does not replace s.106 completely. Affordable housing provision or contributions that lie outside the remit of CIL would continue to be secured through s.106. S.106 would also continue to be used for local infrastructure requirements specific to development sites, such as local access or open space / children's play. Some of these requirements may be physically off site, but would be secured under s.106 where they are clearly linked to the development site and needed to make that particular site acceptable.

3.11.3 Many developments will be required to pay CIL (where used) and enter into a s.106 agreement. In this case the CIL payment and s.106 obligations would cover different things, and developments would not be charged for the same items of infrastructure through both obligations and the levy (see below). Councils running with CIL need to publish a list of infrastructure types and projects that they intend to be, or that may be, wholly or partly funded by CIL. This is known as the Regulation 123 list and will need to be available to the examination process in draft form. This list will be kept up to date to take into account any changes in circumstances and / or infrastructure needs identified in the future.

3.11.4 The Government's CIL guidance (DCLG consolidated latest version 2014) outlines the linkages between the relevant plan (in this case the 2014 adopted Fenland Local Plan), CIL, s.106 obligations and spending of the CIL receipts on infrastructure. This follows the principles outlined at 3.11.1 to 3.11.3 above. Where a CIL is being progressed one key aspect, as has been the subject of discussion at previous CIL examinations in our experience, is that charging authorities need to develop a strategy to clarify the relationship between CIL and s.106. They need to be able to reassure developers that there will be no double-counting ("double-dipping", as it has been referred to) between the operation of the two regimes in terms of the infrastructure projects that each set of funds (or works provided in-lieu) contributes to – again, as above.

3.11.5 DSP considers that the same sort of thinking will need to be applied by local authorities that are not pursuing CIL; or not at the first point of considering its feasibility in their local circumstances (as FDC is doing at the time of this assessment and scoping work). This means that clear strategies and guidance will need to be in place on a Council's specific approach to the use of s.106 (used generally, to also include s.278 highways agreements). The purpose of this will, as with previous SPG / SPDs or similar on this area, continue to be the guiding of land owners' expectations and the progression of sites including the planning application / development control and delivery stages.

3.11.6 The local s.106 strategy / guidance will now need to also serve the important role of setting out what s.106 is to be used for; which types of contributions or works will be sought through it. While the need for this applies equally where a CIL is being set up or not, where it is not then the strategy will need to develop around the limiting factor of the s.106 pooling restrictions.

3.11.7 The NPPF summaries the key tests applicable to s.106 obligations:

Para. 203: *'Local planning authorities should consider whether otherwise unacceptable development could be made acceptable through the use of conditions or planning obligations. Planning obligations should only be used where it is not possible to address unacceptable impacts through a planning condition.*

Para. 204: *'Planning obligations should only be sought where they meet all of the following tests:*

- *necessary to make the development acceptable in planning terms*
- *directly related to the development; and*
- *fairly and reasonably related in scale and kind to the development.'*

Main text of CIL Viability Scoping & Assessment report ends – Final (DSP v7).

September 2014.

Appendices I to IV follow.